IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 23, Issue 6. Ser. X (June 2021), PP 30-36
www.iosrjournals.org

To which extent did Brexit Impact the British Economy? Analysis of the British Economy Pre and Post Brexit

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Abstract:
The study attempts to assess the impact and aftermath of Britain's withdrawal from the European Union "Brexit". It presents and analyzes the key arguments advocated by both Pro and Anti Brexit in an attempt to clarify the impact it might have or may have had on the United Kingdom from an economic perspective. Therefore, the research takes into account the Economic integration trade volume, GDP, immigration, tariffs and international trade with non-EU members in order to clarify the overall Pros and Cons of Brexit. Consequently, Brexit resulted in a new trade agreement between the U.K. and EU retains their tariff-free status however new laws could act as constraints on immigration and free movement which might affect the U.K.'s labor force. In addition, The U.K. isn't any longer a member of the customs union nor single market with the EU. However, it negotiated a trade agreement that allows zero tariffs and zero quotas on goods traded that comply with the appropriate rules of origin.

Keywords: *Brexit, Customs, EU, GDP, Immigration, International Trade, Labour, Tariffs, Single Market.*

Date of Submission: 16-06-2021 Date of Acceptance: 01-07-2021

I. Introduction:

The world stood still and held its breath as the United Kingdom held a referendum on June 2016 under the government of Theresa May to question its membership of the European Union and whether it should remain as a member of the latter or to exit.

The European Union Act was passed by the UK Parliament in 2011, encouraging a referendum on revisions to the TFEU. The referendum resulted in 51.9% voting to leave and 48.1% voting to stay on June 23, 2016, formally initiating the Brexit process. The Pro-Brexit side believed that they should rather invest in the Education and health sector instead of paying membership fee to the EU.

Brexit marked the withdrawal of U.K from the EU, including the economic and policy union that the U.K. had been a member of since 1973. British citizens realized that the benefits of free trade weren't enough to offset the costs of free movement of immigration. The referendum votes were 17.4 million in favor of leaving the bloc versus 16.1 million who voted to remain.

The UK remained in a transition period until 31 December 2020 where nothing changed as it continued to adhere and comply with all EU laws and policies. The transition period marked negotiations on the new relationship between the UK and the EU regarding Post Brexit Era.

Numerous studies have been conducted to forecast the extent that Brexit is likely to affect UK economic growth in the longer term. Projections predict that Brexit is likely to boost future economic output by up to 7% while on the other hand, unfavorable predictions that it will reduce it by 18%, compared to what would happen if the UK remained a member of the bloc.

The EU–UK Trade and Cooperation Agreement, which was agreed on December 24, 2020, ratified by the UK Parliament on December 30, 2020, and was "provisionally" implemented by the EU on December 31, 2020, will play a significant role in determining the implications of Brexit. Economists agree that Brexit will undoubtedly affect the UK economy in the long run, lowering real per capita income, and that the referendum itself harmed the economy.

Brexit is expected to limit immigration from European Economic Area (EEA) countries to the UK, posing challenges for labor market, higher education, and academic research in the United Kingdom.

II. Literature Review:

The British public believed that financial rewards would appear if they voted to leave, which is a dramatic contrast to many economists who warned that leaving would negatively affect the economy. Pre-referendum forecasts of long-term economic hardship varied from 1% to 9% of national revenue — a loss of £20 billion to £180 billion in annual gross domestic product compared to remaining in the EU. (Financial times)

The drastic effects have begun to appear immediately as a result of Brexit, since the number of EU citizens seeking work in UK declined by 36% since the withdrawal from EU compared to average levels in the previous. This highlighted the struggle of UK employers and business owners in terms of hiring staff and laborers. (The Guardian).

Several studies suggested that more strict post-Brexit immigration rules are having a tremendous impact extremely higher than that of the Covid-19 pandemic, the sharp decline in interest among EU jobseekers affected the hospitality, healthcare sector and warehouses which reported the highest declines at 41%. (The Guardian).

According to a study conducted by the Financial Times; the value of Britain’s economic output is roughly 0.9 per cent lower than it would have been if the country had voted to stay in the bloc. (Financial times). Other studies suggest that from June 2016 onwards, Brexit-induced uncertainty impacted British GDP, British national income, and British foreign trade. (Crowley, Meredith; Exton, Oliver; Han, Lu 21 January 2019)

Analyses and studies indicate that certain industries, including textile manufacturing and high-tech industries such as aerospace, will be severely impacted by Brexit due to their reliance on EU imports and exports (Graziano, Alejandro; Handley, Kyle; Limão, Nuno 2018) . Meanwhile, other industries including as agriculture and food processing, may benefit from any new trade obstacles that exist between the United Kingdom and the European Union (Soegaard 2018). As for the the impact regarding the income distribution, most studies and analysis conducted so far indicate that all income groups will be similarly affected by any negative impact of Brexit (Douch, Mustapha; Edwards, T. Huw; Soegaard, Christian 2018) . Lower-income households are likely to be more adversely affected by increases in the price of basic goods, however higher-income households are more likely to be skeptically impacted by lower wages, as they are more likely to work for export-oriented businesses. (Institute for government) (Breinlich, Holger; Leromain, Elsa; Novy, Dennis; Sampson, Thomas)

The UK's exit from the EU, the Single Market, and the Customs Union introduced trade and cross-border exchange hurdles that did not exist before to January 1, 2021.

Even with the EU-UK Trade and Cooperation Agreement in place, consequences for public administrations, enterprises, and citizens were unavoidable, vast, and far-reaching.

The Commission provided training and guidance to Member State administrations and stakeholders and will continue to hold technical sectoral seminars with all Member States to help fine-tune the implementation of ready measures, particularly in the areas of border checks for people and goods. (European Commission)

Post referendum Impact:

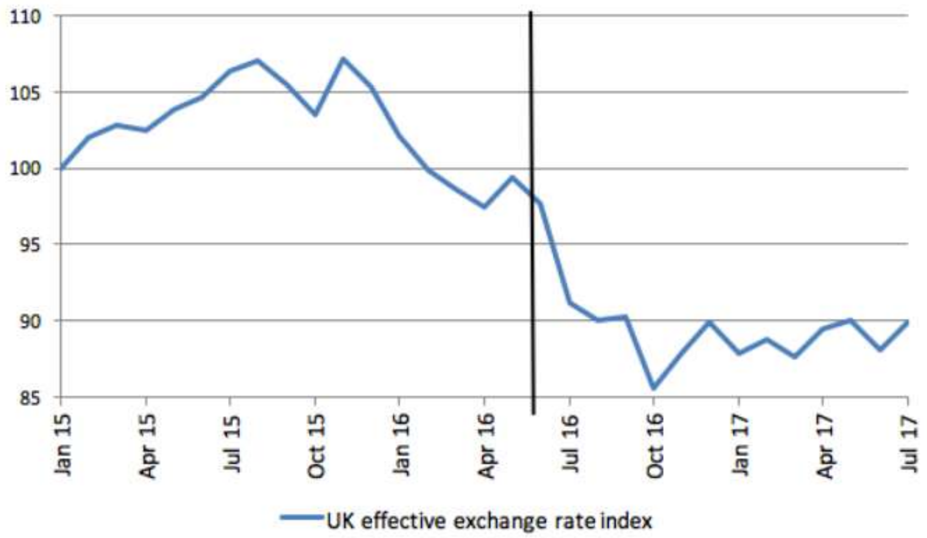
Decline of economic growth:

The greatest consequence of Brexit is the harm it causes to the UK's economic growth. The majority of this is due to the ambiguity around the eventual result. Brexit uncertainty has slowed the United Kingdom's growth from 2.4 percent in 2015 to 1.0 percent in 2019. (U.K. Office for National Statistics). Brexit, according to the UK government, may reduce the country's growth by up to 6.7 percent over the next 15 years. It assumed current free-trade terms but limited immigration. (U.K. House of Commons Library).

Value of GBP:

The British pound dropped from $1.48 on referendum day to $1.36 the next day. This benefits exporters but raises import prices. It still hasn't recovered its pre-Brexit high. (Board of Governors of the Federal Reserve System)

Figure 1: Interpretation of the value of GBP from 2015-2017



Source: (Breinlich et al. 2017a)

Figure 2: Inflation in the EU, UK, and U.S. from 2015-2017

Employment:

The younger labor force in the United Kingdom suffers as a result of Brexit. By 2030, Germany is expected to have a 3 million skilled workforce deficit. After Brexit, those jobs will be harder to come by for British people. Employers are having a difficult time hiring qualified candidates. One explanation is that EU-born workers fled the UK in droves, with their numbers plummeting by 95% in 2017. The low-skilled and medium-skilled occupations have been the hardest hit. (CIPD).

Trade and Exchange of goods:

Even though UK regulatory frameworks are aligned with those of the EU, Brexit makes the UK a "third country" in the eyes of the EU, requiring the EU to determine whether UK measures comply with corresponding EU regulatory frameworks; even if positive determinations are made, the EU could revoke them at any time, disrupting UK trade. Because the agreement excludes mutual recognition of conformity assessments, UK manufacturers will now be required to have their products evaluated for compliance with EU rules and vice versa. The agreement does, however, provide limited, sector-specific regulatory cooperation agreements, such as for pharmaceutical manufacturing methods, vehicles, organic products, wine trade, and chemicals. In terms of services, for example, the agreement does not provide for immediate reciprocal recognition of professional qualifications.

Several issues are left unresolved by the agreement. The deal does not address UK financial services firms' access to the EU, which was previously through a "passporting" right that allowed banks to use their UK bases to access EU markets without establishing legally separate subsidiaries; the parties aim to establish a framework for cooperation by March 2021. Financial services account for 7% of UK GDP and one million jobs.

In addition, agricultural trade may encounter obstacles or uncertainty, given the limited treatment of sanitary and phytosanitary standards (SPS). Cross-border data flows are another issue that has not been fully addressed, with the EU delaying a final judgement on whether the UK provides acceptable personal data protection; many US companies rely on such data flows to connect with UK and EU customers, partners, and subsidiaries.

Since Brexit, the United Kingdom has worked to maintain and deepen its global trading ties. It developed and submitted its own schedules of commitments on commodities, services, and agriculture, which were formerly under the EU, to the WTO for certification. The United Kingdom is now a full party to the WTO Agreement on Government Procurement (GPA). Exporters from the United States and other countries will have to deal with different customs regimes and agreements for the United Kingdom and the European Union.

EU trade agreements will no longer apply to the United Kingdom as of January 1, 2021. Since the transition period, the UK has pursued new trade deals with countries with which the EU has not concluded trade agreements (e.g., Switzerland, Iceland, Norway, South Korea, and Turkey), as well as replicating existing EU trade agreements with non-EU countries (e.g., Switzerland, Iceland, Norway, South Korea, and Turkey) (e.g., Australia, India, and the United States). It also wants to join the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP or TPP-11), which is a regional trade agreement. To far, the UK has struck agreements with roughly 60 economies comprising one-quarter of overall UK trade.

UK-EU Trade Relationship:

After a post-Brexit transition period expired on January 1, 2021, the UK exited the EU single market and customs union, relinquishing its rights and obligations as an EU member state.

The United Kingdom has reclaimed control of its national trade policy and is now free to negotiate its own international trade accords.

A new Trade and Cooperation Agreement governs UK-EU trade and economic ties on a transitional basis. The UK and EU achieved an agreement in principle on December 24, 2020, after nine months of difficult discussions. In the end, both parties claim to have reached a fair and balanced agreement that considers each party's priorities and interests.

The agreement grants free trade in products and limited mutual market access in services are included, as well as mechanisms for cooperation in a variety of policy areas, transitional measures for EU access to UK fisheries, and UK participation in several EU programs. In comparison to the UK's previous status as an EU member state, the following provisions expired on January 1, 2021, because they were not included in the TCA or the Brexit withdrawal agreement: free movement of persons between the parties, UK membership in the European Single Market and Customs Union, UK participation in most EU programs, and parts of EU-UK law enforcement and security cooperation, such as access to a passport database, crime data, defense and foreign policy.

Pro-Brexit debate:

Pro Brexit voters argued that leaving the bloc would result in an immediate cost saving, as the country would not be obliged to contribute to the EU budget. The UK’s contribution pre-Brexit was roughly £13 billion ($19 billion) annually, which is about $300 per person in the UK.

This will in return have a positive impact on other sectors including education and the NHS. Immigration also resulted in huge concerns for Brexiteers as under the EU laws, immigration from lower income states in Europe increased rapidly into the U.K. therefore, voting yes to Brexit meant that the U.K. would regain sovereignty and control over their borders and frontiers and will be able to protect their national security.

The EU has been mired in a multi-year debt crisis since the end of 2009. Greece, Portugal, Ireland, Spain, and Cyprus were unable to repay their government debt. They began borrowing from the European Central Bank and the International Monetary Fund. With fiscally solid economies, France, Germany, and the United Kingdom used to contribute funds to the European Central Bank, which were subsequently transferred to different other member states. The U.K. as a stable economy felt burdened by having to contribute these funds to other member states.

A series of EU treaties have shifted an increasing amount of power from individual member states to the central EU bureaucracy in Brussels over the last few decades. EU rules supersede national laws in areas where the EU has been given jurisdiction, such as agriculture, competition policy, and patent and copyright law. (vox)

A group of neo-liberal British economists believe Britain would be better off if it left the EU. Brussels' bureaucratic red tape is stifling British companies. Even non-exporting British enterprises must obey EU rules on standards, employee rights, union participation, health and safety, paternity leave, and other bureaucratic red tape; this is a hardship on small businesses.

They believe that leaving the European Union will enable the U.K to lower the cost of labor, allowing companies to build factories here rather than exporting them to nations with lower labor costs.

In addition, they argue that huge companies will want to keep their operations in the UK and will minimize relocation since Britain without EU bureaucracy or red-tape will be a more attractive place to conduct business. Government interference, particularly EU action, obstructs natural market dynamics and is hence detrimental to the economy. By exiting the EU, Britain will regain sovereignty and be able to eliminate much of the unwanted Brussels law in areas like consumer protection and labor rights. British businesses will become more efficient and profitable once they are free of unnecessary bureaucratic intrusion.

Business owners disliked the fact that EU legislation restricts Britain's ability and freedom to sign bilateral free-trade agreements with non-EU countries.

The free movement of immigrants within the EU has led to massive numbers of people from other nations benefiting from the U.K. welfare system. Pro-Brexit citizens believe that this has resulted in pressure on Schools, hospitals, social housing, infrastructure, while British people are having to bear the burden and cost of this.

Inflow of labor from lower income nations particularly Eastern Europe resulted in decreasing wages in many sectors, which in return affected British labor force negatively.

Pro-Brexit side argue that the U.K. will gain a lot by leaving the European Union, in terms of negotiating any bilateral trade deals, attracting a highly qualified pool of immigrants who will benefit the U.K rather than putting a pressure on its resources. They advocate that post-Brexit U.K will have a say in deciding who to come or not by utilizing a point-based system such as the ones utilized by Australia, Canada, and New Zealand. In this regard, immigrants will be highly qualified candidates assessed based on their language skills, Education, Age and other factors determined only by the U.K while no longer having the EU intervening in their immigration policies.

Since Europe exports more to Britain than Britain exports to Europe, European nations will have to abide by the U.K rules, to ensure that their enterprises can still compete in the UK market. They will not tend to construct trade barriers. Even though Pro-Brexiters knew that the stock market and the value of the GBP will almost certainly suffer short-term implications; however they believed they will not last long. They stated that as will the cost of imported items such as vehicles, computers, and electrical products, though not much. A declining value of GBP is expected to lower the price of British goods, hence British exporters will be more competitive in international markets, which will create more employment opportunities.

Brexiters believe that Britain now has the ability to act as a sovereign state rather than just as a member of the EU. Britain is now an equal partner with China, USA, Russia, and the EU.

Anti-Brexit debate:

Anti-Brexiters argued that If the British economy is to thrive, it will need to hire a huge number of foreign employees, both skilled and unskilled. They will have to come from other continents if they do not come from Europe.

They also added that leaving the EU will have no effect on immigration to the UK. EU immigration boosts the UK economy greatly, and EU citizens pay far more in taxes than they receive in benefits. Anti-Brexiters believed that Britain will be a less attractive destination for immigrants and skilled workers in the case of leaving the bloc.

Millions of British citizens live and work in other European nations, where they have access to the same services and benefits as other EU citizens. All of this will change if Britain leaves the EU. Many businesses rely on EU migrants to perform tasks that British workers are unable or unwilling to perform.

There are roughly 65,000 EU citizens granted jobseeker's aid in the United Kingdom, while on the other hand. 2.5 percent of British citizens living in other EU nations, particularly Ireland, Germany, and France, are also claiming unemployment benefits, which is pretty much the same.

“As a constructive member of the EU we are gaining a lot in rather than out”, with this statement the Anti-Brexiters advocated that Britain will lose its influential role as a global power if Britain is to leave the EU.

The European Union (EU) is the world's largest economic zone. From an economic perspective, Britain will be more successful in the EU than it will be outside of it (Zaidi et al. 2017). If Britain leaves the EU, it will still have to comply with EU rules and regulations if in order to trade with them; but, will no longer be able to influence or shape them.

Hundreds of thousands of jobs would be lost if the UK left the EU, since international companies who need a foothold in the EU would shift offices and plants to Ireland or other member states of the EU.

Remaining in the EU is extremely significant for the NHS. The NHS benefits from European Union research grants as well as the free movement of specialists within the EU. Many of Britain's top experts hail from other European Union countries. The claim that EU immigrants are causing problems with the NHS is false. Hundreds of thousands of UK nationals have a free EHIC card as a result of the EU health-care agreement, allowing them to access health services in other EU nations. Arrangements are mutually beneficial. Almost everyone, including holidaymakers, benefits. "Healthcare tourism" is a flimsy concept that works both ways.

Economists believe Brexit will have significant immediate and long-term impacts on the economy of the United Kingdom and at least some of the other 27 EU member states. Academics and the economic literature agree that Brexit will most certainly slow the UK's economic growth in the medium and long term. Studies of the consequences since the referendum show a downward trend in GDP, trade, and investment, as well as household losses from higher inflation.

III. Discussion and analysis:

Following a decline of 2.1 percent in January 2021, the UK's gross domestic product increased by 2.3 percent in April 2021. The impact of COVID-19 and the massive 18.3 percent knock to the economy in April 2020, which occurred due to the unprecedented public health measures enacted to contain the virus's spread, is still wreaking havoc on the UK economy. As a result of the economic impact, numerous enterprises have temporarily shuttered or even entirely failed.

In order to mitigate the labor market's inevitable damage, the UK government devised a system in which they will temporarily pay 80 percent of an employee's salaries, up to 2.5 thousand pounds per month, as long as they remain on their respective businesses' payrolls. More than 4.7 million jobs were furloughed under the job retention scheme as of December 31, 2020. Because these two industries are the most sensitive to shutdown limitations, nearly 1.1 million furloughed jobs were in the accommodation and food service sector, and another 938 thousand were in retail.

With so many unknowns about the path of the Coronavirus (COVID-19) pandemic, predicting when and how strong the economy will recover is challenging. The European Commission predicted that all of Europe's economies would experience a drop in GDP in 2020, followed by a return to growth in 2021. GDP in the United Kingdom decreased by 9.9% in 2020, but is anticipated to grow by 4% in 2021, then 7.3 percent in 2022.

Key Findings:

- It is challenging to determine whether Brexit is beneficial or has a negative impact on the U.K as all the predictions and forecasts' route was diverted by the pandemic
- Inflation increased in the UK as an impact of the referendum and the value of the GBP depreciated.
- Brexit introduces both opportunities and challenges for the U.K.
- The U.K is working extremely hard to prove to the world and the E.U that it is better out of the bloc than remaining in it.
- The U.K will lose a huge pool of skilled laborers in the short term but might be able to attract more qualified labor force in the future by a well-structured immigration system.
- The EU and UK reached an agreement regarding the two parties' new relationship in December 2020; these agreements include the trade and cooperation agreement, the information security agreement, and the nuclear cooperation agreement.

IV. Conclusion:

Brexit resulted in the European Union losing its second-largest economy and the second-largest net contributor to the EU budget. Brexit will also cause an additional financial burden for the remaining members or net contributors to the EU, unless the budget is negotiated or reduced.

People in favor of Brexit had hoped that once the UK departed, the edifice would crumble. However, it has shown to be more coherent and durable than that. In fact, Brexit has prompted the EU to establish trade and investment agreements with countries such as China much more quickly.

The United Kingdom will no longer be a shareholder in the European Investment Bank, which it currently owns 16 percent of. According to studies, the departure of the highly economically liberal United Kingdom will weaken the ability of remaining economically liberal countries to veto legislation in the EU

Council. The European Medicines Agency and the European Banking Authority both relocated their offices from London to Amsterdam and Paris, respectively, in 2019, ahead of Brexit.

Post-Brexit, British businesses will have the total ability to choose trade deals in their best interest rather than being forcefully accepting international deals in the context of the European Union.

Eventually, all analysis and indications are premature as a year hasn't still passed since Brexit, economists are still waiting to comprehend the possible impacts of Brexit on the EU in general and the UK in particular.

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Wessam Adel Hamza. "To which extent did Brexit Impact the British Economy? Analysis of the British Economy Pre and Post Brexit." *IOSR Journal of Business and Management (IOSR-JBM)*, 23(06), 2021, pp. 30-36.