Research on the Impact of the UK's Exit from the EU on the Country's Economy and Coping Strategies

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Abstract: Comparing GDP per capita, unemployment rates, exchange rates, and other economic data from before the UK left the EU and after it left the EU, this paper will use this study to examine the impact that was leaving the EU had on the economy after the UK left the EU. The authors of this study investigate the spending and revenue of the British government in the years immediately following Brexit. By analyzing the data provided and developing appropriate responses, the objective is to understand the effects of Brexit and to increase our understanding of how to react to the economic shock resulting from it. Comparative. Analysis A comparative analysis is the process of comparing two or more things in order to determine the degree to which they share similarities or diverge from one another. This paper will examine the effects that the United Kingdom's decision to leave the European Union (EU) will have on the economy, as well as the potential solutions, by comparing the levels of imports and exports, unemployment rates, exchange rates, and other economic data both before and after the UK leaves the EU.

Keywords: UK, EU, country's economy, coping strategies

1. Introduction

The UK's economy and politics have significantly impacted the EU after the UK exited four years ago. Since the 2016 vote on the UK's membership in the EU, the UK economy has suffered severely. With about half of the UK's total exports and imports going to the EU, the UK already relied significantly on the EU for trade. Before the US overtook it in second place and the UK fell to third by 2018, Up until 2015, the UK was the EU's largest trading partner. Exports from the EU to the UK fell after the UK decided to leave the EU. Due to a decline in imports from EU nations, the total value of products imported fell by £0.6 billion (1.1%), and in June 2022, the total value of goods sold to both EU and non-EU nations decreased by £2.7 billion (8.0%) [1]. The overall EU budget will shrink significantly after the UK officially leaves the EU, especially after the end of the transition period". Prior to 'leaving' the EU, the UK's contribution to the EU budget was significant. For example, in 2016, considering the EU contribution rebate to the UK, the UK's contribution to the EU budget was €19.4 billion. It is estimated that the loss of the EU budget after the UK officially leaves the EU will amount to around 5% of the total [2]. In order to fill this gap, the European Commission is considering a 30% reduction in regional development spending, which would further strain the development funds needed by some of the poorer EU member states and would be very detrimental to the development of European integration. Furthermore, from the point of view

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of economic interests, the UK's budget as a member of the EU is included. The UK is a member of the EU, and its budget, which makes up about 1/8 of the EU's overall budget, places it third in terms of volume, behind Germany and France. However, Germany and France have employed a strategy of differentiating interest rates within the Eurozone to gain significantly from their advantageous position within the currency union. According to the recent pound exchange rate, the UK, which is not a member of the Eurozone, has not gained the same benefits as it has paid. Prior to Brexit, the pound and renminbi exchange rate were roughly 1:9, but it has recently decreased to 1:8.1 following the weakening of the pound. Second, historically, there have been territorial conflicts between the UK, Germany, and France. The emergence of Germany and France steadily undermined Britain's once-dominant position in Europe, pushing it down to third place after Germany and France. With racial and religious tensions directly caused a rift inside the EU, which gave rise to the debate over the UK's membership. Many academics have researched how Brexit would affect the EU, but few have looked at how Brexit will affect the UK's economy and how to prepare for it.

2. Method

2.1. The Long-Term Financial Analysis (LTFA)

Long Term Financial Analysis (LTFA) provides an independent view of the government's current financial issues. It assists policymakers in developing plans to meet the needs of society without sacrificing the government's financial future. LTFA consists of three main reviews: revenue forecasting, expenditure forecasting and gap analysis [3]. In this paper, we examine the UK government's expenditure and revenue in recent years post-Brexit, using this data to understand the impact of Brexit and to analyze better how to respond to this economic shock by offering appropriate solutions.

2.2. Comparative Analysis

The process of comparing different things to one another and identifying how they are alike and unique is known as comparative analysis. An idea, an issue, a theory, or a problem can be analyzed by doing a comparative analysis, which gives the government the ability to comprehend the problem better and design a strategy to deal with it [4]. Comparing GDP per capita, unemployment rates, exchange rates, and other economic data from before the UK left the EU and after it left the EU is one of the methods. This paper will use this study to examine the impact that was leaving the EU had on the economy after the UK left the EU. Use this information to analyze the policies and programming that need to be improved at a later stage.

3. Results

When the UK chooses to leave the EU, the cost of remaining in the EU is too prohibitive in economic terms. Does the UK provide more than the benefits of being a member of the EU? In 2015, the UK's contribution to the EU budget was estimated at 12.9% after Germany and France, with the UK spending around £33.3 billion per year to comply with EU regulations [5]. When the UK leaves the EU, it appears that Brexiters may change back or not continue to use EU-enforced regulations, although this may be costly.

The UK's economy has taken a huge hit after Brexit, and when the UK announces its formal withdrawal from the EU, it will not be enjoying the preferential policies of the member states. The terms of the Brexit agreement will address the UK's unpaid monetary obligations to the EU, the future status of EU citizens living in the UK and in Europe, and the structure of the two countries' future relations. However, it won't settle any fresh information [6]. This will inevitably affect the volume of the country's import and export trade, which, as seen in Table 1, is gradually decreasing each year in the 27 EU member states trade with the UK. This will inevitably affect the volume of the country's import and export trade, which, according to Table 1, will gradually decrease each year from 4.9% in 2016 to 3.8% in 2021 for the 27 EU member states. This will inevitably result in high tariffs and freight costs [7].

Table 1: Data on EU imports of goods from the region and the UK.

GEO (Labels)						
European Union - 27 countries (from 2020)	13.5	13.9	14.2	14.0	13.8	13.9
United Kingdom	4.9	4.4	4.2	4.5	4.4	3.8

(Note: Trade in goods, by main world traders - EU27)

When a huge event occurs in the nation, the exchange rate is unavoidably affected, with an initial steep decline followed by many plunges and a protracted overall decrease. As a result, the exchange rate between the British pound and the euro was 15% lower than before the vote. Following the vote, the pound quickly lost value relative to the US dollar and the Australian dollar, with a 17% decline in the exchange rate [8]. The same uncertainty is the deadliest adversary of a forex trader. Investors aiming to profit make up the foreign exchange market. As a result, a currency's total value is influenced by the consensus perspective, independent of the effects of businesses and people moving money around for practical reasons. Investors are uneasy due to the uncertainty surrounding the UK's exit from the EU. This is despite many warnings from the remaining referendum campaign participants about the detrimental effects of the UK's exit from the EU currency, which has eroded investor confidence. According to Figure 1, we can find that when the UK announced its withdrawal from the EU, the impact on the exchange rate had a great impact. The exchange rate of the pound to the euro fell all the way. The UK did some incentive policies later to make the exchange rate rebound. The current global economy and trade are facing huge challenges in the background. The UK abandoned such a large EU market but looking further at overseas markets is not wise. However, for the UK, the most important thing is to deal with the relationship with the EU and how to attract and stabilize EU investment in the UK after Brexit is the most important task in front of the UK.

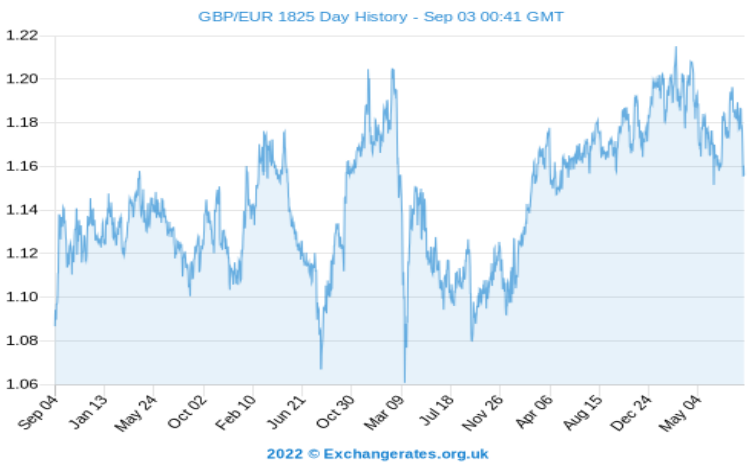

Figure 1: Exchange rate between pound and euro.
(Source: Exchange rates)

After analyzing the import and export, foreign exchange, the most important thing for the country is the unemployment rate, when the UK leaves the EU, it is no longer a Schengen visa member state, then the British people want to work in the EU will need to do a visa, increasing a lot of trouble, the same for the EU workers want to come to the UK is also very troublesome, if the UK is still in the EU, too much labor influx at this time the labor market oversupply, because the work is not worried If the UK is still in the EU, too much labor is flooding into the labor market at this time when there is an oversupply of labor, because there is no worry about work being done, then they can hire laborers to work for very low wages, and profits are increased, and foreign workers have to enjoy some benefits such as health care and education based on the principle of equality, so it can be said that for some people from the middle and lower classes in the UK, joining the EU, they not only lose their jobs, but also have their benefits taken away. But after leaving the EU, fewer people will travel to the UK to work, and, as Figure 2 shows, unemployment is gradually falling. However, in the long term, the departure of many EU companies from the UK has caused employment to fall. At the same time, companies are still choosing to expand their workforce in tough economic conditions. As labor supply decreases and uncertainty continues, companies are beginning to scale back their recruitment plans, and the number of vacancies will likely continue a downward trend.

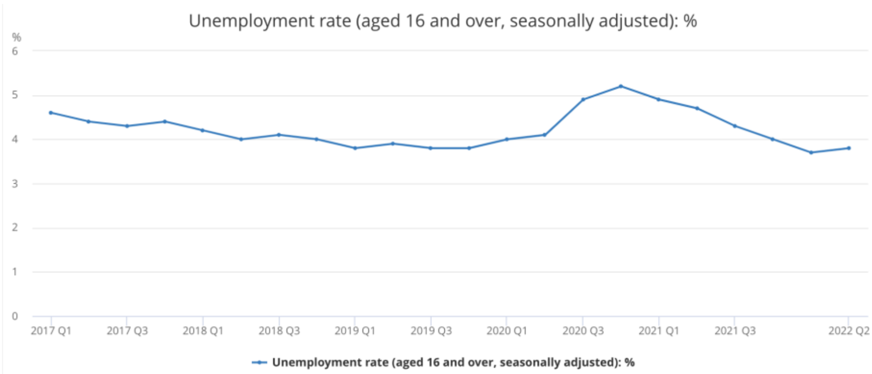

Figure 2: Unemployment rate in the UK over the past five years.
(Source: Office for National Statistics)

4. Discussion

For import and export trade, the EU is uncompromisingly the best trading partner for UK imports and exports. Still, with the UK leaving the EU, there will be significant tariffs, so the best way to address this is to find alternative countries. Trade between the UK and the EU will expand more quickly than trade with non-EU nations. However, there may come a time in the future when EU nations make a smaller contribution to the expansion of UK import and export trade than non-EU nations. As can be seen in Figures 3 and 4, imports from China accounted for 16.1% of UK merchandise imports in the first quarter of 2021, up 65.6% from the first quarter of 2018 [9], which could significantly aid in the rehabilitation of the economy. In terms of trade, the UK's capacity to modify its international trade agreements and increase trade with non-EU nations may be the only benefit of Brexit. especially by creating opportunities for more commerce with non-EU nations, which would greatly mitigate the detrimental effects of rising trade barriers with the EU. The UK is speeding up negotiations for an FTA with Australia after reaching an agreement on an FTA with Japan in October. It views active CPTPP membership as a key component of the UK's post-Brexit restructuring of its international trade network, which will be a significant boost to the UK economy.

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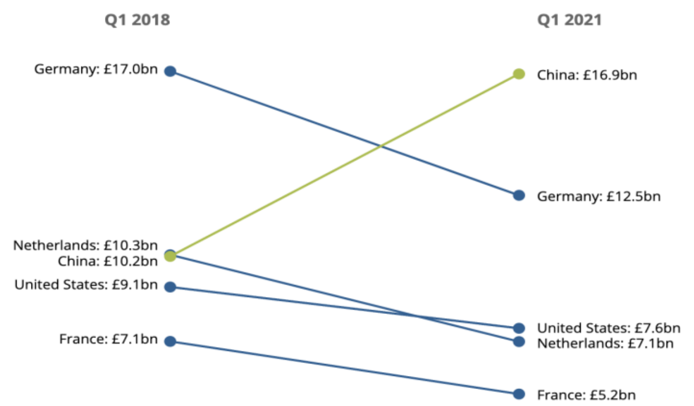

Figure 3: Import trade in 2018 and 2021.
(Source: Office for National Statistics - UK trade statistics, current prices, seasonally adjusted)

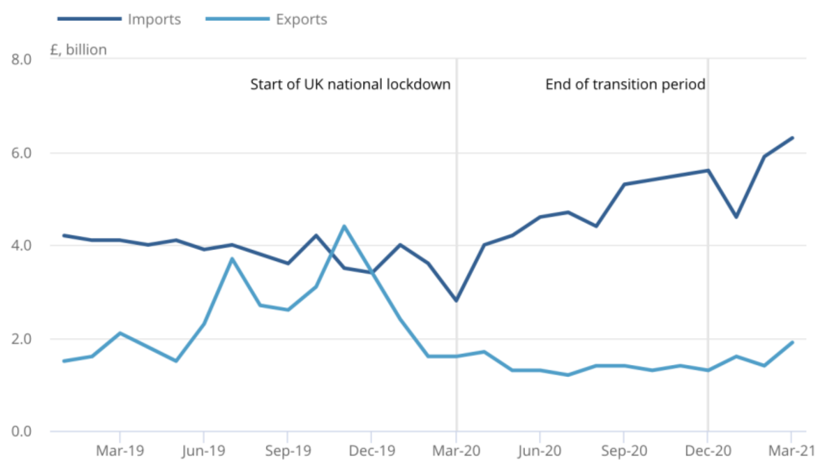

Figure 4: UK imports to China.
(Source: Office for National Statistics - UK trade statistics, current prices, seasonally adjusted)

When the UK quits the EU, exchange rate changes are not very significant because the transitional period ends at the end of 2020. This is because investor expectations are a key trigger. Changes in investor expectations are swiftly integrated into the currency markets due to the volume and pace of trading. The exchange rate will react swiftly to any fresh information that modifies currency expectations. Market participants will sell a currency if they anticipate a future negative impact on investments, causing that currency's value to decline. Given that the EU referendum caught many people off guard, the historic drop in the pound following the vote illustrates the quick effect of changes in market expectations on currencies. In the days preceding the vote, the pound rose due to last-minute polls indicating Remainers were likely to win. The UK should open its financial markets to attract more foreign investors, such as through government funding subsidies to attract foreign business investment and create a trading system in Commonwealth countries that depends on the pound as a settlement system. The immediate drop in the pound's value after the result highlighted the negative expectations of financial market participants to invest in the pound after the result became clear.

One model for post-Brexit immigration to the EU that might be considered entails allowing unrestricted entry at set intervals after Brexit and possibly including a registration program to help enforce and monitor the numbers. This is the situation as it stands right now. As opposed to those with employment opportunities, job applicants from the EU are a minority of those qualified for the position [10]. The United Kingdom's decision to leave the EU is expected to increase long-term structural unemployment and reverse some of the impressive job growth that has occurred over the past few years. Employees who leave heavily affected industries can only gradually move to less affected industries and regions. Retraining and help finding a job are just two examples of proactive labor market policies necessary to make it simpler for employees to find new employment. Numerous additional labor market policies must be put into practice. The main objective here is to support workers, not to concentrate on specific occupations or occupational categories. The ability of business owners to react swiftly to shifting economic conditions would increase if they had easier access to financial resources, which would lead to higher production. Initiatives to increase the housing supply should continue to support the relocation of workers from areas that have been more severely impacted to regions where employment opportunities are more readily available.

5. Conclusion

The way the United Kingdom is exiting the European Union will have varying effects on its economy, and the tug-of-war that is going on between different forces within the United Kingdom makes the process of exiting the EU fraught with uncertainties. Leaving the EU will inevitably result in the United Kingdom losing or completely losing some of the benefits of frictionless trade. This is because leaving the EU will significantly impact the foreign exchange market, the labor force, and the country's imports and exports. The possible effects that a rise in trade, a fall in the number of people arriving in the country as immigrants, and a reduction in the amount of foreign direct investment would have on various parts of the UK economy. Alongside the decline in the pound's value, there was an accompanying rise in the rate of inflation at home. The United Kingdom's economy is struggling on both the domestic and international fronts, contributing to pessimistic expectations regarding the country's chances of successfully exiting the EU. In addition to the UK financial system being exposed to risks such as a deterioration in trade and a sharp tightening of financing conditions in emerging markets, the United Kingdom's cross-border financial services will also be at risk of disruption. The Bank of England is committed to improving capital liquidity and building up capital buffers to continue its mission of preserving market stability. In the wake of Brexit, it is widely anticipated that the world's financial markets will prioritize stability as their primary objective. It is particularly significant at this juncture in the history of the UK's political economy and the outlook on the path that the global economy will take, given that the historical event of Brexit, which has been referred to as an "anti-regional economic integration" event, is becoming a reality. Regardless of the path, the United Kingdom takes when it leaves the European Union (EU), the relationship between the United Kingdom and the EU will reach a new turning point. The EU will be forced to deal with the crisis that results from a break in regional economic integration.

The social divisions within the member states of the EU as a direct result of socioeconomic disparities will also jeopardize the foundations of EU legitimacy. On the other hand, Brexit will make new opportunities available for some developing nations. It will also make new bilateral FTA negotiations possible and reshape global economic and trade relations.

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