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Analysis of the Impact of Brexit

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Abstract. This paper analyzes the economic impacts of Brexit on the United Kingdom, the European Union, and China. It begins with a historical overview of the Brexit process, followed by a detailed examination of its effects on labor markets, inflation, exchange rates, and capital flows. The study concludes that while Brexit presents short-term challenges for the UK, it also offers long-term strategic autonomy. The EU faces financial and structural adjustments, while China experiences limited but specific trade and financial impacts.

Keywords: Brexit; British economy; EU economy; Chinese economy; trade policy.

1. Introduction

Britain is an island country located in the sea off the European continent, and the island topography determines that Britain has maintained a proper distance from the European continent in history. After the Hundred Years' War between Britain and France, the political and economic form of Britain's island nation was formally established. With the opening of new shipping routes, Britain rose in the tide of world colonialism. Relying on the geographical advantages of the island and strong comprehensive national strength, it affects the political economy of Europe and ensures the world dominance of Britain. Keeping a distance from the European continent has become the political wisdom and tradition of the United Kingdom, which has become an important reason for Britain's decision to leave the European Union. Brexit is the departure of the United Kingdom from the European Union. The issue was first proposed in 2013, but it was not until January 30, 2020 that the EU approved Brexit. Brexit has not only brought huge political and economic impact to the UK, but also has a profound impact on the whole world.

2. Impact of Brexit on the British Economy

In the short term, the consequences of Brexit for the UK leaving the EU outweigh the benefits. After Brexit, the ties between the UK and the EU will face strong impacts. Although there are more optional modes for the UK-EU relationship, the trade partnership between them becomes more unstable and uncertain, making it difficult to guarantee the bottom line in trade. In addition, events such as the global COVID-19 pandemic, the Russia-Ukraine conflict, and the Israel-Palestine conflict have added many obstacles to the UK's path ahead of going it alone [1]. Therefore, even though the UK authorities are optimizing foreign trade strategies, predicting and assessing risks, and accelerating the formulation of new policies, choosing any mode cannot compare with the situation before Brexit. Overall, this still restricts the free trade between the UK and the EU. There are several reasons for this:

2.1. Labor Market

The UK's Labour market has been less badly hit overall. In the pre-Brexit period, due to the outbreak of the new coronavirus, the number of job vacancies in the UK increased to 1.288 million from January to March 2022. Tony Wilson, director of the UK Institute for Employment Research, pointed out that the early retirement of middle-aged and elderly people is the main reason for the shortage of Labour in the UK. However, it is also affected by Brexit, the free movement of people between EU countries is restricted, and some EU labor forces who produce and live in the UK begin to withdraw from the UK, resulting in a employment gap, but it is not serious. The movement restriction policy also reversely promoted the return of British labor in the EU, which alleviated the job vacancy in the UK to a certain extent. According to the national conditions, the British government has introduced corresponding support policies, including increasing the recruitment of private sector workers, delaying the retirement age of women, etc., which has driven the local employment in the United Kingdom and improved the employment rate.

2.2. Inflation and Exchange Rates

The outbreak of the Russia-Ukraine conflict in February 2022 has brought greater uncertainty to the world situation. The energy and food crisis in Europe has caused inflation to soar as Russia, Europe's main energy supplier, has tightened the flow of oil and gas to Europe because of US-led international sanctions. In January 2022, the UK Consumer Price Index (CPI) rose 5.5% year-on-year compared with January 2021, up 4.9% from 4.8% in December 2021, and the year-on-year increase in December increased to 10.5%, the highest point in 40 years. For the fierce inflation, the Bank of England continues to raise interest rates in order to reduce the currency in circulation, and raises the benchmark interest rate constantly, hoping to encourage people to deposit their money in the bank, resulting in rising loan costs, individuals and enterprises are reluctant to invest and finance activities, and the growth of the British economy is hit [2].

2.3. Capital and Financial Markets

The UK not only had huge excess wages and profits before Brexit, but also the financial industry, with the City of London at its core, provided about 2 million jobs and generated 12% of the UK's GDP. It can be seen that the financial industry is the pillar industry of the UK, and the fluctuations of the financial market have a non-negligible impact on the overall economic development of the UK. The UK has close trade links with the EU, which is the UK's largest import and export economy, accounting for 52.3% of the UK's total imports and 47.6% of total exports. Since the 2016 Brexit referendum, no matter what model of UK-EU relations is chosen, it cannot return from a bilateral market to a unilateral market. In addition to the increase in the cost of trade between the UK and the EU, during the Brexit period, the EU launched a New Deal, declaring that it would no longer give countries outside the single market free access to financial licenses, so many internationally renowned financial institutions such as UBS, Bank of America, Lloyd's and so on out of concern, the UK may lose the financial licenses originally owned by EU member states, and have withdrawn from the UK mainland. It has undermined London's status as an international financial centre. The pound's exchange rate has been affected by the UK's decision to leave the European Union, with investors on all sides causing the exchange rate to fall amid uncertainty about the referendum. After the decision to leave the EU, the Bank of England's previous measures to promote the UK's economic recovery were in vain, the pound was sharply depreciated, and the instability of the currency directly affected the UK's trade with the EU or other countries. Coupled with a series of events such as the decline in private investment, the government's drastic tax reduction policy, and the turmoil in the financial market, the International Monetary Fund (IMF) predicted in the first edition of the World Economic Outlook Report released in 2022 that the British economy would contract by 0.6% in 2023, significantly lower than the previous outlook by 0.9 percentage points. It was the only country in the Group of Seven (G7) to see its economy shrink.

But in the long run, Brexit theoretically has positive effects, which is why the UK proposed it. As a community among European countries, the EU is a symbol of solidarity among European countries and an important achievement of European integration. The reason why European countries can achieve economic reciprocity and mutual assistance and win-win situation is inseparable from the establishment of the European Union. But absolute fairness does not exist in the world system, and while the EU advocates mutual help, the big countries in the EU have taken on more responsibilities, especially when it comes to money. After Brexit, the UK can save the huge amount of money that must be paid to the EU every year, and the economy is not subject to the large expenditure brought about by "nepotism" within the EU, saving a lot of pounds to invest in domestic development. At the same time, the UK is no longer politically bound by the EU, and it does not need to consider the attitude of other EU countries, and can independently tailor new strategies and policies for its own country. The restriction of personnel flow can alleviate the disadvantages brought by the "refugee crisis" for Britain, so that the British government and various enterprises can focus more on the employment of their citizens, and attract and retain more talents. As a developed country with abundant capital and a relatively independent island country, the UK has strong economic independence, does not need to rely too much on the EU, and can get rid of the economic "burden" brought by the EU.

In terms of trade partners, the British government has extensively developed trade partnerships with countries around the world, and has signed trade partnership agreements with the United States, Japan, Australia, India and other countries. By the beginning of 2022, the UK, with its own capital accumulation and status as a major economy in Europe, has reached free trade agreements with more than 70 countries and regions, accounting for 64% of the UK's total trade, showing a positive trend. In terms of Labour, the UK has introduced a new points-based immigration system, which comes into effect after the end of the Brexit transition period, that is, at the beginning of 2021, with non-EU citizens and EU citizens competing on the same terms. In terms of reinvestment and finance, as the foundation of the United Kingdom, the British government's supervision on the investment field is relatively loose, which promotes its investment and financing operations in the financial field. Second, Britain's negotiations with the EU [3]. Brexit is easy in form, but difficult in substance. Britain and the EU have formed inextricably linked. After Brexit, the EU lacks an important member state, the UK lacks a policy channel, and the two seek and complement each other, which is likely to eventually reach a compromise and form a win-win trade agreement in line with liberalism.

3. Impact of Brexit on the EU Economy

For the EU, a 2019 report by the National Bank of Belgium predicts that the cost of trade between the UK and the EU will increase significantly after Brexit. In addition, the departure of a country that accounts for 12.76% of the EU's population and 17.56% of the EU's total economic output has made the EU lose an important partner, and the "troika" of European integration has disintegrated. Whether it is to damage the cohesion of member states to deepen integration, to reduce the trust of post-accession countries and weak peripheral countries in the EU, or to shake the efforts of other major countries in the EU, it is a serious setback to the EU

The EU faces three main problems: money, finance and Labour.

3.1. Monetary Issues

Brexit will weaken the pound and drag the euro down with it. The European Union, which was Mired in a debt crisis in 2010, has recently come under the world's attention again due to its debt problems. Eu officials say the bloc's debt will reach 900 billion euros by the end of 2026. In addition, the long backlog of refugees accepted by the EU and its member states has long become a difficult problem within the EU. According to the European Border Agency, about 330,000 illegal migrants and refugees were recorded in the EU in 2022. All kinds of problems and contradictions have led to the increase of differences within the EU, and laid the tone of the EU's economic downturn. At the same time, the move of the United Kingdom has shaken the determination of other European countries to continue to stay in the euro area, and the achievement of European monetary integration is threatened, and then radiates to the overall goal of European integration. Cheng Shi, co-head of research at ICBC International, said: "The euro is the product of the advanced stage of the unified currency area, the foundation of its existence and the foundation of its development and growth are European monetary integration, but the Brexit farce has weakened the monetary foundation and monetary credibility of the euro."

3.2. Financial System

London is an international financial center, and Brexit has made the European financial situation more complicated. Although the United Kingdom has legally left the European Union, negotiations on the future relationship between Britain and the European Union remain uncertain. In order to deal with the risk of not being able to continue to operate the various financial transactions and contracts signed by the UK and the EU before Brexit under the unified regulatory system, and to minimize losses, the UK and the EU have carried out a series of major arrangements to deal with no-deal Brexit in terms of financial passport, extending the transition period for financial institutions, and implementing the temporary licensing system. Former Prime Minister Boris is in the trade negotiations to adopt the "first United States after Europe" strategy, and strive to reach a trade agreement with other major powers as soon as possible, and as a bargaining chip, for the UK in the UK-EU trade negotiations to win more interests. The UK's departure forced the EU community to face a more challenging reshaping of the financial landscape.

3.3. Labor Mobility

Previously, the free flow of Labour between the UK and the EU, the restricted movement of people after Brexit, and the start of the integrated immigration policy in the UK, the EU Labour market may be volatile. The repatriation and return of low-level workers in the EU may bring uncertainty to its labor market, especially to the economies of Eastern European countries such as the Czech Republic, Poland and Hungary, which are relatively weak in their resilience to risks. On the other hand, the EU's high-level labor force may be attracted by the UK's preferential policies and treatment to stay in the UK because they are seeking better development opportunities and social welfare, resulting in the brain drain of the EU [4].

4. Impact of Brexit on the Chinese Economy

In the tide of global economic globalization, no country can remain immune, and the Chinese economy is not immune to the impact of Brexit. However, as a socialist country, China has the institutional advantage of "working together to do great things", coupled with the development accumulation over 40 years of reform and opening up, the impact of Britain's Brexit on China's economy is relatively small.

After Brexit, Britain has extended its economic territory into the Asia-Pacific region, signed free trade agreements with many countries and joined CPTPP. As a non-member, China has been affected by trade barriers, resulting in a decline in import and export trade. At the same time, the depreciation of the pound means that the price of imported products in the UK will rise sharply, and China's exports to the UK may be lower in the shock, especially export-oriented manufacturing enterprises that are mainly exported to the UK or therefore under pressure.

China is the world's second largest economy with a population of 1.4 billion and an area of 9.6 million square kilometers. The EU and the United States cannot really stop their economic exchanges with China because of China's huge market, rich resources and superb manufacturing technology. According to the statistics of the General Administration of Customs of China, as of November 2020, the EU's actual investment in China amounted to US $117.98 billion, and the total trade value between China and the EU was RMB 4.05 trillion, making China the EU's largest trading partner. The UK will learn from the EU and adopt friendly and cooperative measures as the US changes its attitude towards China. For example, the British government "limited release" to Chinese companies Hikvision [5]; China's opening up measures such as the construction of an offshore RMB center and the internationalization of A-shares are complementary to the UK's position as the second largest RMB offshore clearing center after Hong Kong, China, and the two sides have internal impetus to strengthen cooperation in the financial sector. All in all, there is great potential for future cooperation between China and the UK.

5. Conclusion

Brexit not only has a significant economic impact, but also has a profound impact on today's international political landscape. Today, Brexit has become an indelible historical fact. In the changing world situation, it is both an opportunity and a challenge. We should take a comprehensive view of the future direction of Brexit

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