THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL GRADUATE AND DOCTORATE CENTER

MASTER DISSERTATION

ON THE TOPIC

“The impact of Brexit on the UK Economy”

Adil Salıh

BAKU– 2021

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MASTER DISSERTATION

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Code and name of Programme: 060401 – World Economy

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Elm andı

Mən, Adil SALIH, and içirəm ki, “The impact of Brexit on the UK Economy?” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

BREXITİN BİRLEŞİK KRALLIK İQTİSADİYYATINA NƏ TƏSİRİ?

XÜLASƏ

Tədqiqatın aktuallığı: Dissertasiyanın mövzusu Birləşmiş Krallığın Avropa Birliyindən "Brexit" in genişləndirilməsinin Birləşmiş Krallıq İqtisadiyyatına təsirinin təhlilidir.

Tədqiqatın məqsədi: Tədqiqatın əsas məqsədi Avropa Birliyindən çıxmaq qərarından sonra Birləşmiş Krallıq üzərində potensial iqtisadi təsirləri öyrənməkdir.

İstifadə olunmuş tədqiqat metodları: Tədqiqat məqaləsini yazmaq və məqsədini təhlil etmək üçün həm keyfiyyət, həm də kəmiyyət məlumatlarını əhatə edən müxtəlif analitik tədqiqat metodları və qarışıq metodlardan istifadə edilmişdir.

Tədqiqatın informasiya bazası: Dövlət qurumları tərəfindən nəşr olunan dissertasiya bazası rəsmi sənədlər, beynəlxalq təşkilatlar tərəfindən hazırlanan hesabatlar, kitablar, araşdırmalar, beynəlxalq jurnallar, məqalələr, müsahibələr və İnternet mənbələri, rəsmi statistikanı əhatə edən və tədqiqatın məqsədi ilə əlaqəli.

Tədqiqat məhdudiyyətləri: Əsas, mövzu ilə əlaqədar müasir mənbələrin və tədqiqat işlərinin olmamasıdır, çünki həqiqi Brexit 2020-ci ilin dekabr ayının sonunda baş vermişdir. Mövcud tədqiqatların böyük əksəriyyəti bu yaxınlarda deyil və Brexit-in geri çəkilmə müqaviləsini təyin edəndən əvvəl edilmişdir. İngiltərə və AB arasındakı yeni əlaqənin şərtləri.

Tədqiqatın elmi yeniliyi və praktiki nəticələri: Nəticələrə Avropa Birliyindən çıxmağın İngiltərə iqtisadiyyatının əsas sahələrinə iqtisadi təsiri daxildir. Nəticələr iqtisadi sahələrdə istifadə edilə bilər.

Nəticələrin elmi-praktik əhəmiyyəti: tədqiqat Brexit ilə əlaqəli tədqiqatları və inteqrasiya və dezinteqrasiya ilə əlaqəli tədqiqatları yaxşılaşdırmaq üçün istifadə edilə bilər.

Açar sözlər: Birləşmiş Krallıq, Brexit, Avropa Birliyi, İqtisadiyyat

THE IMPACT OF BREXIT ON THE UK ECONOMY

SUMMARY

The actuality of the subject: Topic of the dissertation is the analysis of impact of the widhrawal the United Kingdom from the European Union "Brexit" on The United Kingdom's Economy.

Purpose and tasks of the research: Main purpose of the study is to study the potential economic effects on the United Kingdom following its decision to leave the European Union.

Used research methods: Various analytical research methods and mixed methods, involving both qualitative and quantitative data were mainly used to write the research article and analyze its purpose.

The information base of the research: Dissertation database official documents published by government agencies , reports produced by international organizations, books, studies, international journals, articles, interviews, and Internet resources, which covering official statistics and related to the purpose of the study

Restrictions of research: Main is lack of up to date resources and researche studies about the subject because the real Brexit just happened at the end december 2020. The vast majority of existing studies are not recent and have been made before the Brexit withdrawal agreement setting the terms of the new relationship between UK and EU.

The novelty and practical results of investigation: Results include the economic impact of leaving the European bloc on the main sectors of the economy of the United Kingdom. Results can be used economic fields.

Scientific-practical significance of results: the study can be used to improve researches about the Brexit and studies related to integration and desintegration .

Keywords: United Kingdom, Brexit , Euroepan Union, Economy.

ABBREVIATIONS

BREXIT	Britain Exit
UK	United Kingdom
EU	European Union
WTO	World Trade Organization
IMF	International Monetary Fund
UN	United Nations
GDP	Gross Domestic Product
NATO	North Atlantic Treaty Organization
FTA	Free Trade Agreement
NHS	National Health Service
ONS	Office for National Statistics
NAFTA	North American Free Trade Agreement
ASEAN	Association of Southeast Asian Nations
EURATOM	European Atomic Energy Community

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INTRODUCTION

Relevance of the research topic: After many years of world trade openness, Europe was surprised on June 24th by the result of a referendum organized by the United Kingdom which announced that the country will leave the European Union (Brexit). British voters have decided to exit from the European Union after a relationship of 43 years. The UK left the EU officially on January 31st ,2020 after more than four (04) years of Brexit referendum.

This historical decision and the struggle to achieve an agreement of terms and conditions of withdrawal from the EU have caused a big debate in the UK and divided the country into two large groups in one hand a group of “Brexiters” who a group of people are who support the decision to leave the EU and in the other hand there is “Remain” group or “Remainers” who believe in the EU project and are against the Brexit. The debate was about the potential consequences of this big decision on the future of The United Kingdom. The debate was intense through Many publications issued by universities, government, political parties, companies, think-tanks and observers from the outside the UK, especially from the EU. Thus, an atmosphere of uncertainty has been shaping and impacting in a negative way the Economy of the UK. Uncertainty has impacted enterprises’ financial and investment decisions; consumption behaviors of households was also shacked by Brexit uncertainty.

Uncertainty was based on two scenarios; The first is Soft Brexit which means that a deal would be reached which will maintain access of UK to the European single market. The second scenario is Hard Brexit or no deal which was the worst scenario for UK’s citizens and officials.

On December 24th, 2020, the Trade and Cooperation Agreement between the UK and the EU has been signed and came into force on January 1st, 2021. Although the agreement achieved is way better than a No deal Brexit according to UK officials, economic statistics released by government showed the early negative impact on the UK’s economy mainly caused by the uncertainty shock.

The research deals with the various predictions regarding the future of economy in the United Kingdom while analyzing economic indicators and data available to understand the potential effects of the Brexit on the UK's economy.

Statement of the problem and learning level: The Brexit is considered as a new phenomenon which targeted the European Union; one of the famous examples of Economic integration

The main issue discussed in the study is how the economy of the United Kingdom will react to the shock of Brexit in short and long term.

In one of the icons of economic integration blocs in the world which is the European Union where all countries members economies are highly integrated , the UK gained a lot from its EU membership which impacted positvely its economy.In fact UK's london has been considerd as a financial hub of the EU and many companies were used to invest in UK as a gatway to the huge market of the EU.

Brexit which was a political decision in electoral comapign is now a reality and caused uncertainty which had a bad effect on the economy so far. Almost to all economic sectors in the UK were hitted by uncertainty regarding its performance in the future outside the EU.

Purposes and objectives of the research: The main purpose of the dissertation is to study the consequences of Brexit on the performance of the economyt of the United Kingdom. The main goal is to study the different stats related to various economic indicators in order to have a clear vision on the future of UK's economy after Brexit

Object and subject of the research. The object of the study is the impact and consequences of widthrawal of the United Kingdom from the European Union ; This research will study the outcome of Brexit on as the future of key economic sectors as trade, services ; investments and Employement in the UK

Research methods. The research will be conducted using several methods, the first is analytical method. This method of analysis in the research is designed to concretely study the benifits of the United Kingdom EU membership. Causal analysis would be employed to emphasize the consequences of desintegration on the UK’s economy.

In the current thesis, it will be used mixed methods, involving both qualitative and quantitative data

Sector analysis to explore the impact of Brexit occured on each sector of the UK’s economy .

The Statistical analysis is mainly used to prove the impact of Brexit event on the economic performance of the UK and also for measuring the effects caused by the uncertainty during brexit transition period on the behaviour of firms investement decision and the evolution of other variables.

Another method would be used is deductive reasoning proceeeding from general conclusion that Brexit has a negative impact on the economy of the UK to specific ones summrazing the economic consequences on differents key sectors.

Document analysis is a method that serves to gather some important facts in research.

The comparative method will be used understand the change occuring in main economy indicators before and after leaving the European Union.

Research database:

Research database will cover studies published by British bodies who have contributed to the Brexit debate through economic forecasts these include the government agencies like the Office for National Statistics (ONS, the National Institute for Economic and Social Research, several think-tanks, the Bank of England etc.

The database used includes also working papers, articles, books internet websites and other available publications issued by different Think-tanks

Research limitations: The classic distinction between qualitative and quantitative aspects of economic and financial phenomena makes the evaluation even more complex. The economic and financial impact cannot be limited to its quantitative dimension. The fall in gross domestic product (GDP), the increase in unemployment, the shutdown of factories or the relocation of financial groups are all potentially measurable, despite the obvious difficulty of the exercise, due to the uncertainty of the context. But it is the qualitative dimension of the impact that must be considered. No longer taking part in the EU's decisions, no longer discussing its future, no longer being part of a group that is much more powerful on the international scene than its individual members: all these aspects are difficult to quantify, whatever the context. The figures, estimates, and projections cannot capture the considerable loss of influence that the UK will suffer by leaving the EU.

Scientific novelty of the research: The dissertation discusses the new phenomenon of Brexit which is a new form of desintegration and its impact on short and long term on the United Kingdom’s Economic position.

Scientific and practical significance of the results:

The research aims to clarify the potential consequences of Brexit on the econ,omy of the United Kingdom . The results obtained could be also used to predict cosnequences of such decisions of desintegration on the involved countries.

CHAPTER I. ESTABLISHMENT OF THE EUROPEAN UNION IN THEORETICAL AND HISTORICAL CONTEXT

1.1. Economic integration in global and regional context: advantages and disadvantages

For long time ago over history, humanity has faced the existence of integration ideas and cooperation between nations, in particular those who share a common continental territory. In the last five decades, we can see that integration have become more familiar. Other trends such as globalization have led to the predominance of an economic model of free markets in international trade between nation states. The best-known integration blocs today are the EU, NAFTA, MERCOSUR and ASEAN.

Regional Economic Integration showed up as a result of a progressive and dynamic process of cooperative events and degrees based on an economic, political and cultural level. It is seen as a process because, firstly, a Regional Integration Initiative must be initiated. This initiative is usually initiated by a political or geopolitical cooperation process. This approach is frequently encouraged by conditions such as geographical proximity between nations, cultural ties, mutual historical events, trade and exchange relations, and many more.

In this first part of this chapter, we will give an overview of economic integration and definitions to relate to this subject.

Economic integration is the unification of economic policies between different states through the partial or total ending of tariff and non-tariff restrictions on trade between them before their integration.

This would combine both reducing prices for distributors and consumers in order to increase the level of prosperity, while promoting a growth in the economic productivity of the involved countries.

Trade concerns all countries in the world, but to different levels. Some countries are fully committed to it and the bulk of their production is oriented to exports, while other countries import more than what they export. However, these trade exchanges are not carried out randomly and depend essentially to the logic of proximity. In fact, we can see all over the world that neighboring states have created economic areas where the exchange of goods and services is made easier.

There are many theoretical advantages and disadvantages that come with regional integration. The advantages include: Less chance of conflict and war as countries within the same economic bloc negotiate their economic advantages and mutual benefits from a shared view on issues that may cause conflict and tensions. Freedom of movement of goods and people which enhance the allocation of different resources. Countries that join in an economic bloc enjoy an important position towards global financial and trade institutions. Also social conditions of countries members of integrated blocs could be improved by improving the prosperity of their people, lowering prices and creating more jobs.

Promotion of democracy and liberalization: as countries within an economic bloc review their various laws together to achieve compliant laws.

Foreign direct investment (FDI) also tends to flow which can be beneficial to the economies of member countries by creating jobs in new or investing companies.

Moreover, the huge markets generated by trading blocs allow firms to take advantage of economies of scale. Larger markets and customer base enable member country companies to benefit from economies of scale. Since the average cost of each product decreases as production increases, this leads to lower prices for consumers.

Trade blocks create competition among producers in member countries. Increased competition leads to pressure for better efficiency within companies, resulting in lower prices for consumers.

Trade effects: Trade blocs eliminate tariffs, reducing the cost of imports.

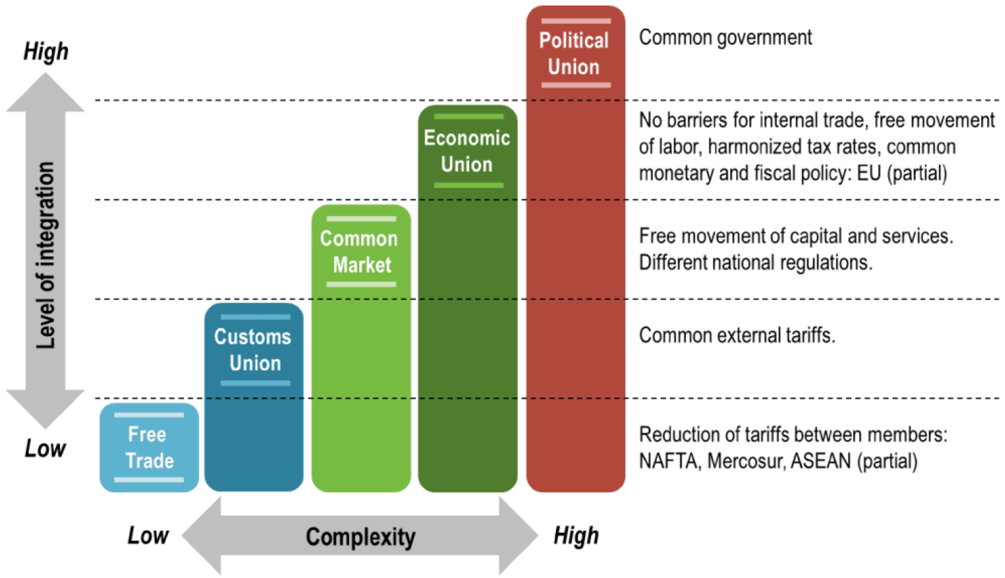
In the other hand economic integration adversary's claims that there are some disadvantages of Economic integration which may include: Loss of sovereignty, independence and national identity as a result of the opening of borders and the unification of laws. They claim that the loss of state power in favor of an even larger government that negotiates in favor of the bloc, forcing member states to make concessions.

More competition is seen as a disadvantage of economic integration it leads to job losses in some local industries: competition that lowers prices in favor of consumers hurts investors. No control over borders which mean more risk of smuggled goods and people.

They argued also that the countries of the regional trading bloc contribute to regionalism rather than global integration. Also a country that wants to join a trade bloc must make concessions. For example, in trading blocs that involve developed and developing countries, the latter will have to allow multinational companies to enter their tiny domestic market at the cost of some local companies.

Because trading blocs increase trade between participating countries, these countries become increasingly dependent on each other. A disruption of trade in a trading bloc as a result of natural disaster, conflict, or revolution can have serious consequences for the economies of all participating countries.

Figure 1: Levels of economic integration



Source: https://transportgeography.org/contents/chapter7/globalization-international-trade/economic-integration-levels/

Trading blocs may engage in a variety of protectionist behavior like imposing Tariffs to restrict imports and increase the price of goods and services purchased from another country, making them less attractive to domestic consumers.(Investopedia.com)

Protectionism policy may include Quotas: which is a government-imposed trade restriction that limits the number or monetary value of goods that a country can import or export during a particular period. Countries use quotas in international trade to help regulate the volume of trade between them and other countries.

The free trade area is a group of countries between which goods move freely. A free trade area is characterized by the fact that each country remains completely free of its external tariff towards non-members countries of the region, unlike a customs union. The North American Free Trade Association (NAFTA) is a free trade area that brings together the United States, Canada and Mexico. In Asia, the ASEAN Free Trade Area (AFTA) was created in 2002. This zone now includes the Philippines, Malaysia, Thailand, Indonesia, Singapore, Vietnam, Laos, Cambodia and Burma; China, Japan and South Korea have been associated since 2010.

The second stage of regional economic integration is the creation of a customs union which is a free trade area whose members also apply a common external tariff to imports from countries outside the area.

The third stage of regional economic integration is the creation of a common market: it is a customs union to with free circulation of production factors.

The fourth stage of regional economic integration is the creation of an economic union (common market with coordination of policies through common guidelines). Common fiscal, social, sectoral and monetary policies (agricultural policy, competition policy, security policy: Schengen area, etc.) can be implemented.

The economic and Monetary Union involves not only the establishment of common policies, but also the creation of a zone of fixed parities between members and possibly the creation of a common currency (such as the Euro).

The final stage is Political union which is a total regional economic integration with the establishment of a supra-national structure. It consists of government specific to regional integration.

1.2. The road to the establishment of the European Union: Historical overview

The 1950s - A peaceful Europe - The beginnings of cooperation. The political and economic collapse and the disruption of the social structures in the various European nations in the years following the Second World War have made people aware of the need to seek new solutions to overcome this situation.

The peoples of Europe had realized that there is no strength without unity. After the restoration of freedom, the determination to recreate pre-war living conditions, the immediate economic necessities and the huge needs accumulated over the years led to the fact that each of those countries had to find a new way out of this situation and seek to rebuild instead of a new construction.

The alarm call of then prime minister of the United Kingdom Y. Winston CHURCHILL was to alert the general public. Y. CHURCHILL demanded, on the September 19th, 1946 in his speech in Zurich, the creation of the of "the United States of Europe" and, as a first step towards their achievement, the constitution of a Council of Europe.

In 1947 the economic situation of Europe was heading to a disaster; European country were on the verge of not having the means to buy the food, raw materials and machinery they needed. And Europe had barely recovered half of its previous industrial and agricultural production.

On 9 May 1950, the French Minister of Foreign Affairs, Robert Schuman, made a famous declaration launching the founding call for the construction of Europe. This declaration proposes the creation of a European organization responsible for sharing French and German coal and steel production which would be the European Coal and Steel Community (ECSC).

The history of the EU is a story of progress big and small step towards ever closer integration. From the very beginning, the leaders have decided to integrate their core industries of the war and post-war years: coal and steel. Customs duties tariffs have been lowered, subsidies removed, and cartels have been dismantled. But, unlike other forms of economic cooperation that emerged in the post-war period, the integration of Europe has been marked by the creation of new high institutions. Over the years, these institutions have come to represent the executive, legislative and judicial powers of the European Union project. The sustainability and continuous strengthening of these institutions demonstrates the power and success of this project. One of the key steps was, in 1979, the election of the European Parliament, its legislative power, by direct universal suffrage.

1957: The Treaty of Rome signed on 15 March 1957 defines the content of the Common Market. It implements the institutions designed to:

- Define the rules of the common market's game.
- Ensuring their application.
- Extend European authority in economic matters.

The two main institutions created were:

- The Council of Ministers, the legislative body.
- The Commission, an executive body which has an initiating role in the legislative process. It also controls the treaties.

In 1957, the European Economic Community (EEC) was created: Belgium, Luxembourg, the Netherlands, France, Germany and Italy. The removal of customs tariffs as well as quota restrictions between these Member States is done in a progressive manner (transitional period of twelve years).

At the same time EURATOM Treaty was signed in Rome to establish an atomic energy community.

The 60s – a period of economic growth: In 1960 the European Free Trade Association (EFTA) was created it consisted of seven European states Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom enters into force. Established by the Stockholm Convention signed on 4 January 1960, EFTA is an alternative to the European Economic Community (EEC).

After the EEC (European Economic Community) came into force in 1958, an organization of six states - France, Italy, the Federal Republic of Germany (FRG), Belgium, the Netherlands and Luxembourg, a division took place within the European nations in terms of economic policy. Seven states not belonging to this alliance, the "Outer Seven", decided to form an association to facilitate negotiations with the EEC. According to the objectives listed in Article 2 of the Stockholm Convention, EFTA is to promote in each of the Member States a sustained expansion of economic activity, full employment, rational use of resources and a steady improvement in living conditions. Furthermore, the Association undertakes to establish a fair competition between the Member States, while fighting against disparities in natural resources.

1962: Announcement of the European Union's first common policy, the Common Agricultural Policy (CAP), created in 1962, has made it possible to take up the challenge of food self-sufficiency on the scale of the continent. It has helped to develop a European quality food supply. By implementing the CAP, European States have also equipped themselves with powerful tools to steer agriculture along strategic objectives that meet citizens' expectations.

It has also produced results in terms of the economic performance of agriculture and the agri-food industry in Europe. It has adapted to the increasingly open context of agricultural trade, choosing to maintain a model of family farms present in all territories, including the most disadvantaged.

1968: removal of customs tariffs: On 1 July 1968, the Customs Union entered into force, after being introduced by the Treaty of Rome of 1958. This made the suppression of customs tariffs for goods effective and marked the beginning of the process that made the European Union the world's largest trading bloc.

- ✓ The treaty abolished quotas (i.e. ceilings on imports) and customs duties between its 6 signatories.
- ✓ It established a common external tariff on imports from outside the EEC,

replacing the previous tariffs of the different states.

- ✓ The customs union was accompanied by a common trade policy. This policy, managed at EEC level and no longer at national level, distinguishes the customs union from a free-trade association.

The 70s-the Europe of 9. Denmark, Ireland and the United Kingdom joined the European Union on 1 January 1973, increasing the number of Member States to 9.
During the 1950s, the United Kingdom had stayed away from all attempts at European integration that might call into question its sovereignty, its relationship with its former empire and its privileged relationship with the United States. But during the 1960s, the British reoriented their foreign policy towards an increasingly prosperous continental Europe.

In 1971, after two refusals from France, who was concerned that the European Communities would be weakened, the United Kingdom was granted access to the common market. It was officially admitted on 1 January 1973, along with Ireland and Denmark. The Communities (ECSC, EEC, EAEC) thus grow from 6 to 9 members.

In 1979 The new European Monetary System (EMS) is officially inaugurated by the nine countries of the European Economic Community (EEC). France, Italy, the Federal Republic of Germany, Belgium, the Netherlands, Luxembourg, Ireland and Denmark agree to link their national currencies, while the United Kingdom goes it alone and allows its currency to fluctuate freely.

The EMS goal was to strengthen cooperation on monetary policy between the Community countries, in order to achieve a zone of monetary stability in Europe.
It was created in response to the collapse of the Bretton Woods Agreement. Formed in the aftermath of World War II (WWII), the Bretton Woods Agreement established an adjustable fixed foreign exchange rate to stabilize economies.
1980 - 1989: The fall of the Berlin Wall: The enlargement of the EU to southern European countries, thus in 1981, Greece became the 10^{th} member of the EU, and then Spain and Portugal joined five years later. Europe now has 12 Member States - The Europe of 12 (EU-12).

In 1986 The Single European Act was signed by 12 Member States, which took its name from the fact that it brings together in a single text the rules on institutional changes, the expansion of EU competences and European foreign policy cooperation.

The treaty is the basis for a major six-year plan to remove barriers to the free movement of goods within the EU, leading to the creation of the 'single market'.

9 November 1989 was a time of great political revolution with the fall of the Berlin Wall and the opening of the border between the newly reunited East and West Germany for the first time in 28 years.

1990 - 1999: A Europe without borders: With the collapse of communism in Central and Eastern Europe, Europeans are becoming close neighbors.

The single market was completed in 1993, with the creation of the 'FOUR FREEDOMS':

- Free movement of goods
- Free movement of capital
- Freedom to establish and provide services
- Free movement of persons

Two treaties were signed in the 1990s: The Maastricht Treaty on European Union in 1993 and the Treaty of Amsterdam in 1999.

Maastricht Treaty: Treaty on European Union signed in Maastricht on 7 February 1992 by the then 12 Member States of the European Economic Community and entered into force on 1 November 1993.

The main stages of Economic and Monetary Union stipulated in the Treaty are:

- Free movement of capital.
- The coordination of economic and monetary policies and the establishment of the European Monetary Institute
- The creation of a single currency and the European Central Bank (ECB)
- The implementation of the single currency.

Treaty of Amsterdam**:** was signed on 2 October 1997 and entered into force on 1 May 1999; it made substantial changes to the Treaty of Maastricht, which had been signed in 1992.

Under the Treaty of Amsterdam, member states agreed to transfer certain powers from national governments to the European Parliament across diverse areas, including legislating on immigration, adopting civil and criminal laws, and enacting foreign and security policy (CFSP), as well as implementing institutional changes for expansion as new member nations join the EU.

In 1995 the EU witnessed a further enlargement by the accession of Austria, Finland and Sweden.

The first decade of the 21 century was a big step toward the EU integration. In 2002 12 countries switched to the euro currency. The transition to euro currency in 2002 was both an important event in the history of Europe and a great technical success. On 1 January 2002, euro banknotes and coins were introduced in 12 countries with a total population of 308 million. It was the largest monetary conversion operation the world has ever seen.

2004 witnessed the expansion to the countries of Central and Eastern Europe: The chapter of political divides between Western and Eastern Europe was definitively ended when no less than ten new countries joined the EU in 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

2007: Bulgaria and Romania joined the EU. Europe then has 27 Member countries.

2009: The Treaty of Lisbon: The European Council, meeting in Lisbon on 18 and 19 October 2007, approved the new treaty of reform, known as the Treaty of Lisbon, which replaces the draft Treaty establishing a Constitution for Europe. This treaty makes changes to both the Treaty on European Union (Treaty of Maastricht) and the Treaty establishing the European Community (Treaty of Rome).

A financial crisis hit the global economy in September 2008, leading to increased economic cooperation between EU countries. The treaty of Lisbon was ratified by all EU countries before coming into force on 1 December 2009. It provides the EU with modern institutions and more efficient working methods.

The Treaty for the first time provides for a formal procedure to be followed by Member States wishing to withdraw from the European Union in accordance with their constitutional requirements, namely Article 50 of the Treaty on European Union (TEU).

The year of 2013 has known the accession of Croatia thus the EU contains 28 Member countries.

European economic integration process was full of challenges and difficult periods Especially during economic and monetary crisis.

Following the oil shocks of the 1970s, the economic crisis has hit Member States directly. Despite the abolition of tariff barriers on goods, they put in place other types of barriers to trade (forms of protectionism): Technical standards and exclusive concessions in public procurements.

Moreover, the process of free labor movement is making much slower progress than the free movement of goods. The main reason is the difficulties in the coordination of conditions in accessing jobs (which vary greatly from one State to another). Free movement on the capital market also comes late (in 1990).

In 1973, the EEC was enlarged with the arrival of three new Member States: The United Kingdom, Denmark and Ireland. The latter country was economically poorer than the other Member States. The arrival of the United Kingdom raised new problems given its special relationship with the Commonwealth Indeed, large imports from these countries result in a significant contribution from the United Kingdom to the EEC budget, more than it benefits from it.

The enlargement of the EEC continued in 1981 with the adhesion of Greece and in 1986 with the accession of Spain and Portugal. The arrival of these three countries moved the geographical and economic gravity center to the south.

The end of the 1960s was characterized by a monetary crisis with the inconvertibility of the dollar to gold and the devaluation of the pound sterling. Confronted to this crisis the Werner report is adopted. It provides for monetary union before the end of the decade. This objective was not achieved as the report underestimated the need for monetary union: The need to bring Member States' macroeconomic policies closer together and monetary instability with the generalized floating of currencies in 1973.

After the creation of the monetary union in 1972, the European Monetary System (EMS) came into force in 1979. The long-term objective is the establishment of a single European currency and in the short term the creation of a zone of stable parities. This system requires a certain degree of harmonization of macro-economic policies (monetary and budgetary in particular) and implies certain limitations on these policies: Exchange rate policies must be coordinated, interest rate fixing policy is no longer national and Inflation rates in the different economies must converge.

The EMS is a further step towards economic integration. However, it is not an integral part of the Treaty and Member States are not obliged to join it.

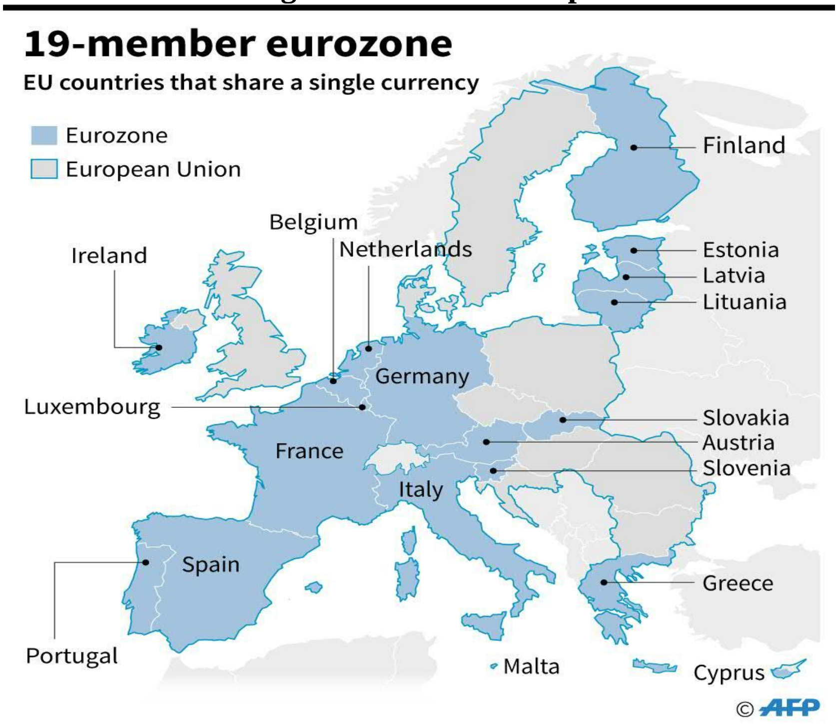
1.3 Mutual interdependence of economies within the European Union: Key issues

The European union represents an Economic and Monetary Union achieved by an agreement between members states which adopt a single currency and common and coordinated policies. This economic and monetary union makes it the most successful example of regional integration. The EU has also a supranational political institution, i.e. above the states, which do not exist in other international integration systems, such as the European Commission, which has powers and decisions that go beyond the states in certain areas.

The European integration model goal was not only to promote the free movement of goods, but mainly to intensify commercial and cultural links, to promote cooperation between companies, universities and research laboratories, to encourage and facilitate exchanges between Europeans (Erasmus programs, for example), and to create common policies (agricultural, regional and energy policies, etc.). The three main characteristics of European integration are the single market, the common currency, the euro, and the integration of economic policies which combine a set of competition policy and monetary and budgetary policies.

The euro zone brings together 19 of the 28 countries of the European Union. It was set up in 1999, then in 2002 for citizens, and facilitates trade using a single currency: the euro.

Figure 2: Eurozone map



Source: France Press Agency (AFP)

With almost 75% of the EU's GDP, the euro zone is alone the third largest economic power in the world. It is also the core of the European Union.

To be part of the euro zone, countries must respect the convergence criteria:

- ✓ Low inflation. The average inflation rate observed during a one-year period before a country is examined for admission to the single currency must not be more than 1.5% higher than the average of the three best performing Member States in terms of price stability.
- ✓ Sound public finances. The government deficit must not exceed 3% of gross domestic product (GDP) and the public debt must not exceed 60 % of GDP
- ✓ Stable exchange rates. Candidate countries must have observed the normal fluctuation margins provided for by the exchange rate mechanism of the

European Monetary System for at least two years, without devaluing their currency against that of any other Member State.

- ✓ Low interest rates. During the year preceding the examination, the average long-term interest rate must not be more than 2% above that of the three best performing Member States in terms of price stability.

Since the economic and financial crisis of 2008, several reforms have been implemented. They are mainly aimed to: help countries in difficulty, monitor the public finances of Member States boosting the economy through investment.

The European Union's internal market, also known as the single market, is a customs union between all EU member states, based on four fundamental freedoms: the free movement of goods and services, capital and people. It is the largest barrier-free economic area in the world.

Primary goals of the Single Market include improving the quality and availability of goods and services and reducing prices. In order to meet these objectives, the following benefits have been provided:

- ✓ A larger ‘domestic’ market with more resources.
- ✓ Greater specialization within the region.
- ✓ A powerful trading presence in the international arena.
- ✓ Increased economic integration among members.

The EU has created a single market where there are no tariffs and everybody applies the same regulations so one product made in the EU can be sold as it is in any country of the EU for instance France had a specific regulation regarding car safety all cars were required to have yellow headlights white headlights was said to be too bright and could blind drivers in oncoming traffic so as a result car makers had to produce cars specifically for the French market and this goes against the idea of a single market so the French were forced to change their regulation to comply with EU standards now there are only white headlights in Europe.

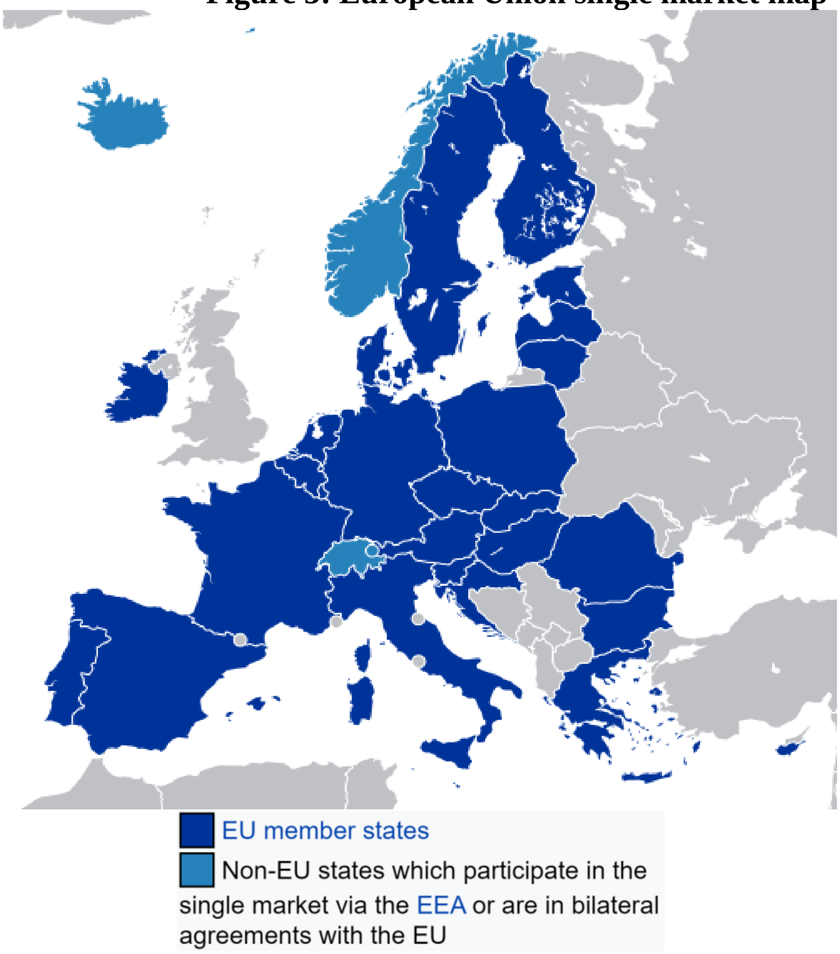
The single market attracts big companies to relocate their factories to low wage countries. Many German car makers moved their factories to Slovakia because the salaries are much lower in Slovakia the worker earns the third of what the German earns so German companies decided to invest heavily in Slovakia and it is not only Slovakia it is also the Czech Republic Poland Hungary Romania today only 40% of German cars are produced in Germany.

Coordination of economic and budgetary policies is especially necessary between EU Member States. Without it, macroeconomic imbalances could destabilize the entire EU and the euro area in specific.

Economic coordination applies to all Member States, but it is enhanced for the 19 countries that are part of the euro zone. There are therefore different tools applying both to countries using the euro and to others.

Monetary policy in the euro area is conducted in full autonomy by the European Central Bank (ECB). Contrary to the Federal Reserve in the United States (Fed), the ECB's objective is focused on a single goal: ensuring price stability.

Figure 3: European Union single market map



Source:https://upload.wikimedia.org/wikipedia/commons/thumb/3/3f/EU_Single_Market.svg/500px-EU_Single_Market.svg.png

The map of the single market shows the 27 members of the EU plus Switzerland Norway and Iceland these free countries do not belong to the EU, but they have access to the single market.

To achieve this, the ECB makes a detailed analysis of the economic situation and assesses the rate of growth of the money supply in order to determine how prices are likely to develop in the euro area.

To reach its objective of price stability (annual inflation around 2%), the ECB has two main instruments at its disposal: the key interest rate and reserve requirements. It can also conduct specific policies to prevent systemic risks and combat the effects of a crisis: these are the open market and quantitative easing policies.)

The economic and financial crisis of 2008 revealed several gaps in the economic coordination of European states: lack of convergence between economies, ineffective solidarity mechanisms, weakness of banks, lack of fiscal governance, etc.

In order to deal with this, various instruments were created or strengthened after the crisis. To name but a few, the European Semester allows the European Union to better monitor the financial accounts of each State, in order to avoid any budgetary imbalance of one of them that could affect the other state members.

Because of several countries in south, such as Greece, have been heavily affected by the crisis, the European Stability Mechanism was set up to provide financial assistance to states and banks in difficulty, under certain conditions.
The European Central Bank, for its part, proceeded to buy the debts of states in difficulty, a measure long considered taboo, particularly by Germany. The Banking Union, which has not yet been completed, reinforces the prevention and management of possible bank failures.

The legislative basis for economic coordination goes back to the Maastricht Treaty, which introduces budgetary rules (public deficit below 3% of GDP, public debt below 60% of GDP), but also economic rules concerning price stability, exchange rates and long-term interest rates. This treaty was reinforced in 1997 by the adoption of the Stability and Growth Pact, and in 2012 by the European Budget Pact.

In June 1997, as the euro zone was in the process of being set up, the European Council adopted the Stability and Growth Pact (SGP), the goal of which was to reinforce the budgetary discipline necessary for the harmony of Economic Monetary Union EMU. Although fiscal policy remains a national competence (unlike monetary policy), it is regulated by the SGP.

The "preventive part" of the pact. It requires Member States to submit an annual stability plan (for euro zone participants) or a convergence strategy (for other countries).

The second element is the corrective part of the pact. In case of an excessive deficit, the Council addresses recommendations to the country concerned and can then impose sanctions: a deposit with the ECB which can become a fine (from 0.2 to 0.5% of the country's GDP) if the excessive deficit is not corrected.

The European Semester was introduced in January 2011. It is a new tool for the coordination and surveillance of national budgetary and economic policies. It is a cycle of economic and budgetary policy coordination within the EU. It is part of the economic governance of the European Union. The cycle focuses on the first six months of each year, which explains its name.

The European Union is today a key player in the world economy, both in terms of consumption and production of goods and services. With a GDP of 15,913 billion dollars in 2018 (13,485 billion euros according to Eurostat), the 27-member European Union is the world's second largest economy. It represents 18.5% of world GDP, behind the United States (23.9%) and ahead of China (15.8%) and Japan (5.8%). The United Kingdom contributed 3.3% to global wealth creation in 2018.

However, the EU's share of global GDP has fallen over the last ten years, from 25.6% in 2008 (before the sovereign debt crisis) to 18.6% in 2018.

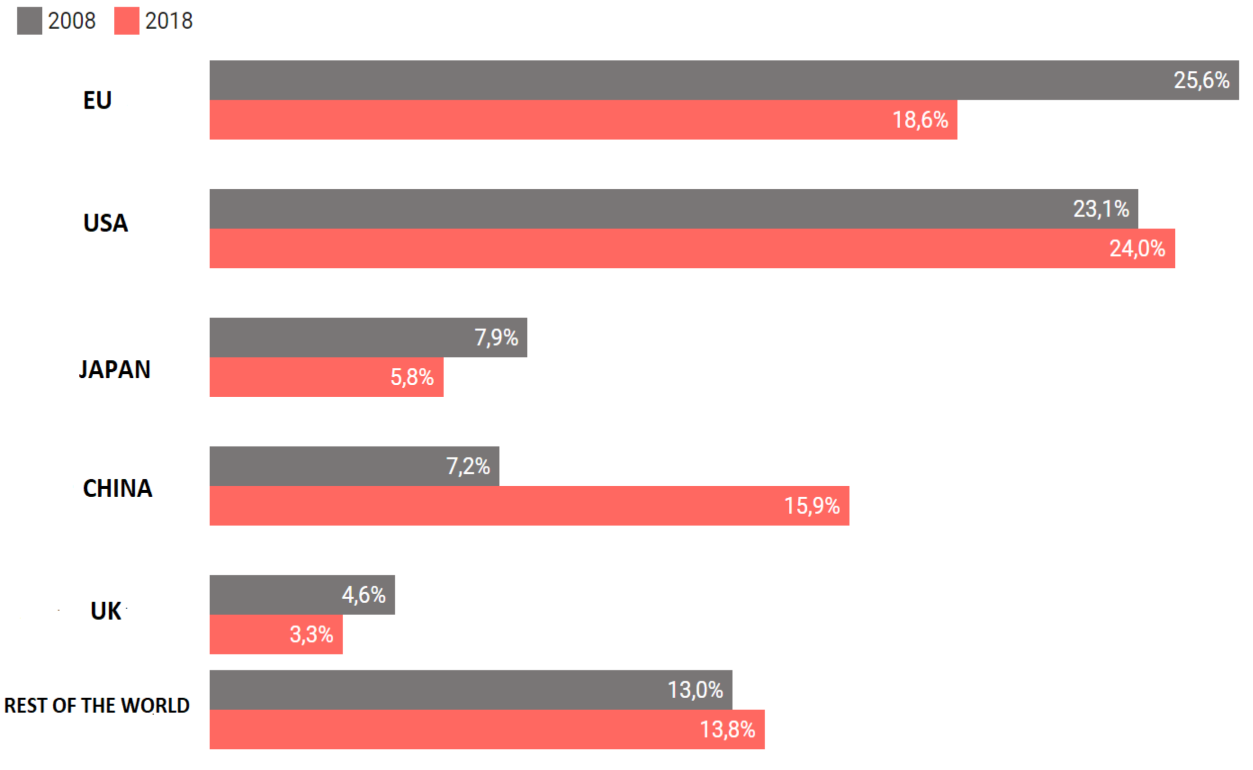
The EU's GDP, the total value of all goods and services produced, was €16.4 trillion in 2019, when the UK was still part of the European Union.

Together with the US and China, the EU is one of the three biggest players in international trade.

The EU-27 is the world's second largest trading power in goods, the world's largest exporter of manufactured goods and services. With its open trade regime and commitment to free trade, the European Union remains the most important player on the world trade scene. The EU-27 is the world's largest exporter of manufactured goods and services and is itself the largest export market for ~80 countries.

In 2020, the EU trade in goods balance was in surplus by €217 billion. Looking at the trend over time, after recording a small deficit in 2011, the EU trade balance subsequently recorded a continuous surplus, peaking at €264 billion in 2016. The surplus decreased in 2017 and 2018, then increased again in 2019 and 2020

Figure 4: Share of global GDP between 2008 and 2018



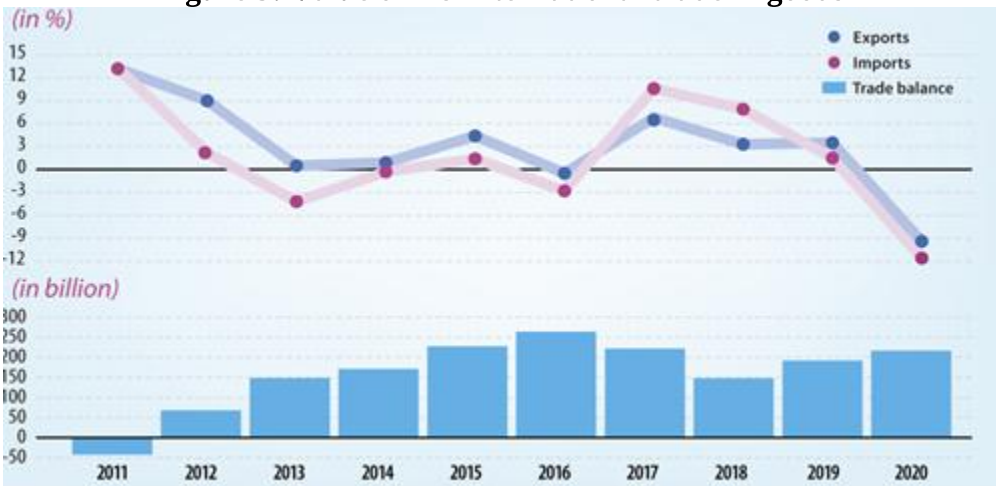
Source: https://ec.europa.eu/eurostat

Most of the EU Member States traded mainly inside the European single market. In 2018, the EU-28 Member States exported a total of €5 475 billion worth of goods and services. Almost 64.3% of these were shipped to other EU Member States. In addition, Member States imported €5 427 billion worth of goods and services. And 63.5% of total imports came from another Member State according to Eurostat statistics.

Therefore, although trade relations with European countries are made easier by geographical proximity, the reduction of trade barriers has also had important positive effects on intra-European trade.

Within the single market, customs duties and national quotas have therefore been dropped between Member States. The European institutions have also been working for over sixty years to harmonize several rules and standards.

Figure 5: Value of EU international trade in goods



Source: https://ec.europa.eu/eurostat

CHAPTER II. THE ECONOMY OF THE UNİTED KİNGDOM BEFORE AND AFTER İNTEGRATİON WITH THE EUROPEAN UNİON

2.1 History of economic relations between the United Kingdom and the European Union

The history of Europe is plenty of evidences about the specific Relationship between United Kingdom and the European Union community. When Britain made its application to join the EU in 1961, it did not exist. Instead, it was the European Community (EC), which would eventually go on to become the EU and the important body within this was the ECC, the European Economic Community. Britain primary interest was economic.

Britain had previously focused its economic ties with the remaining Imperial territories in the Commonwealth. Yet as these nations began to shift their focus to other nations like the United States, Britain had to look for other markets. It had originally been opposed to any form of Pan European Organisation of Nations, and further all that was needed was a free trade These negotiations for a free trade agreement didn’t succeed, and when these Six Nations formed the EC. Instead, Britain and these nations got together and created the European Free Trade Association (FTA), which removed some of the barriers to trade with the EC, and thus Britain, had a choice either remain as part of the FTA, known as the Seven, or apply to join the EEC, known as the Six. Pressure to do this because Britain's economy was not growing as fast as the rest of Europe and there was a fear of being left behind. And thus in 1961, British Prime Minister Harold Macmillan went for membership, applying to join the EEC did not guarantee success, and for Britain there were two major obstacles.

The first was the United States of America. Britain wanted to be sure that its membership of the EEC did not contravene any American foreign policy.

The second and the biggest hurdle were France, specifically President Charles de Gaulle, and in 1963 he banned Britain's entry into the EEC. For several reasons.

The first was that he believed that Britain joining the EEC would weaken his ties to the British Commonwealth. The second reason was that France and the United States relations were pretty poor in the early 1960s, he was concerned that Britain would simply be a means of America directly affecting the work of the EEC.

Then Britain would never properly commit to Europe in the way that say France or West Germany had, despite being rejected, Britain didn't give up and instead did everything they could to make future integration easier. A reason for Britain's continued interest was a concern that financially was too reliant on the United States. In 1967, Britain again made an application to join and again, Charles de Gaulle made his veto. He argued that the reason for this was because he felt that the British pound currency was too unstable and Britain would need to devalue it before entering the EEC.

In 1972, Britain made a joint application with Denmark, Ireland and Norway on the condition that if Britain did not get in, nobody would join and that time it was accepted by everyone except by Norway, who then stayed in the FTA. Three years later, Britain held a referendum to confirm whether it would continue its membership, and this was overwhelmingly backed by the public. The European communities would become the European Union in 1993.

After joining, the United Kingdom showed its resistance to handing over part of its sovereignty and to becoming involved in a European political structure. the United Kingdom has withdrawn several times, at the risk of annoying its partners. And there it followed a first referendum following political wrangling in 1975. But this time, the British voted 67% to remain in Europe with one of the heads for the yes, Margaret Thatcher. The future Prime Minister. She was looking forward to a trade paradise, but the idea of an Ever-Growing Union was something she found horrifying and she refused the entry of the United Kingdom into the Schengen zone in 1985. And the idea of the euro as a single currency.

In 1984, the UK won a rebate on the British contribution to the European budget, on the basis that Britain benefited little from the Common Agricultural

Policy after expressing its dissatisfaction with the European Union's performance by using its famous expression "we want our money back.

The country then adhered late and only temporarily to the European Monetary System. Conceived to stabilize currencies. Thereafter, it refused to join the Schengen area, the euro zone and more recently London did not want to sign the budgetary treaty that forces governments to reduce their deficit.

2.2. Economy of the United Kingdom within the European Union

In this section we will discuss the reasons that led the UK to join the EU, but also how the UK has benefited from EU membership. In this section, we focus on highlighting the economic ties between the UK end the EU and how they impact each other speaking economics. We argue that Britain has benefited significantly from EU membership - the three key mechanisms being trade, foreign direct investment (FDI), and services, we start with the following argument: Trade is good for British growth, but that intra-industry trade is good for British TFP growth and thus may matter even more.

This sections focuses also on effect of EU membership on net FDI inflows to the UK and argue that the benefits of financial services specialization in the UK depend largely on their interactions with FDI and trade.

Most of the data used in this part is from 2016 which is the year of Brexit. In order to analyse the real economic position of UK inside the EU without diving into uncertainty caused later by brexit which started after the 2016 referendum.

- **Trade:**

Britain has become a major player in international trade, with trade accounting about 60% of GDP, largely due to lower trade barriers with the European Union through the European Union's single market. It is the second largest exporter in the world and the fifth largest importer of commercial services, the tenth largest exporter and the fifth largest importer of goods. The main customers of Britain are the United States, Germany, Switzerland, China and France. British imports come mainly from Germany, China, the United States and France.

Britain exports vehicles, gold, medicines and turbines, as well as oil. Its main imports are similar in nature (cars, medicines, gold, etc.).

In 2016, the trade deficit reached 25.4 billion pounds, compared to 2015. However, the Kingdom has a surplus in the services sector.

Given the UK's geographical proximity and historical ties to members that make up the European Union, it is no surprise that the EU is by far the UK's largest trading partner.

Trade relations between Britain and the European Union witnessed a positive trend before its accession to the European Union. In 1962, exports to the European Union countries (the fifteen countries EU 15) accounted for 35%, rising to 42% in 1973. Imports from these countries also had a stronger trend, rising from 30% in 1962 to 43% in 1973. This trend continued after Britain's accession to the European Union.

Trade relations between Britain and the other European Union countries deepened further during the period: 1973-1990, as the rates of export and import in Britain rose to about 60% during this period.

At the end of the 1990s, the share of imports and exports decreased significantly, but imports were severely affected by the lower competitiveness of Europe compared to the new participants in the international division of labour (China).

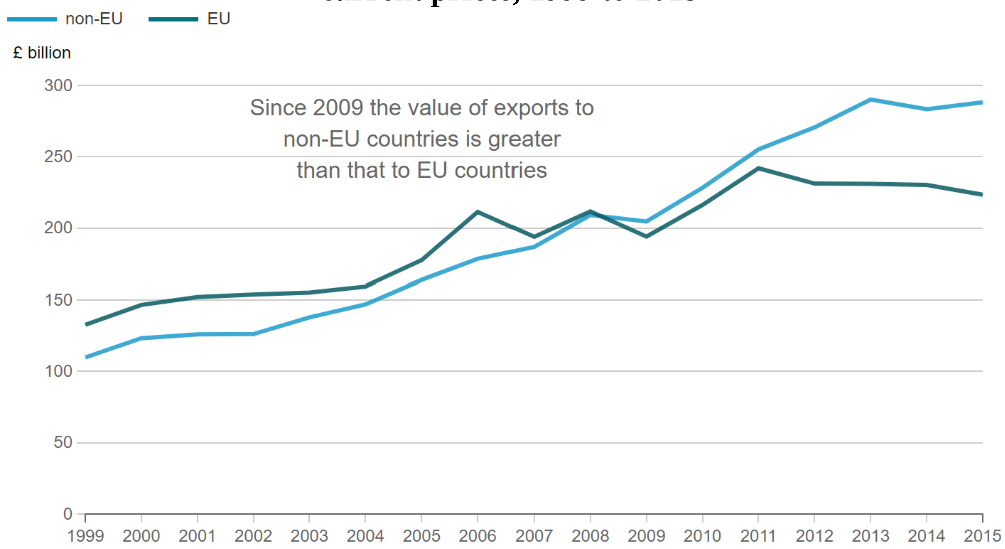
After the global financial crisis, the percentage of exports decreased, as trade with other European Union countries declined disproportionately with the rest of the world as a result of the serious and continuing crisis in many countries of the euro area. It can be said that UK's trade is largely directed towards the European Union, as 44% of its exports of goods and services were destined for the European Union, and more than 50% of its imports came to the UK from the European Union.

According to the classification of the World Trade Organization for the year 2015, Britain was ranked ninth in the world in terms of exporting goods (2.8% of the world total) and fifth in terms of import (3.7% of the world total).

UK exports to the EU have risen by 68% between 1999 and 2015 in other hand imports have risen by 101% during the same period.

Between 2012 and 2014, slightly more than half of the UK's goods exports went to the EU, and just under 50% went to non-EU countries, mainly the United States and China. In 2015, goods exports to non-EU countries took the lead, accounting for 53% of total exports.

Figure 6: Value of UK exports (goods and services) with EU and Non-EU countries, current prices, 1999 to 2015



Source: Office for National Statistics (ONS)

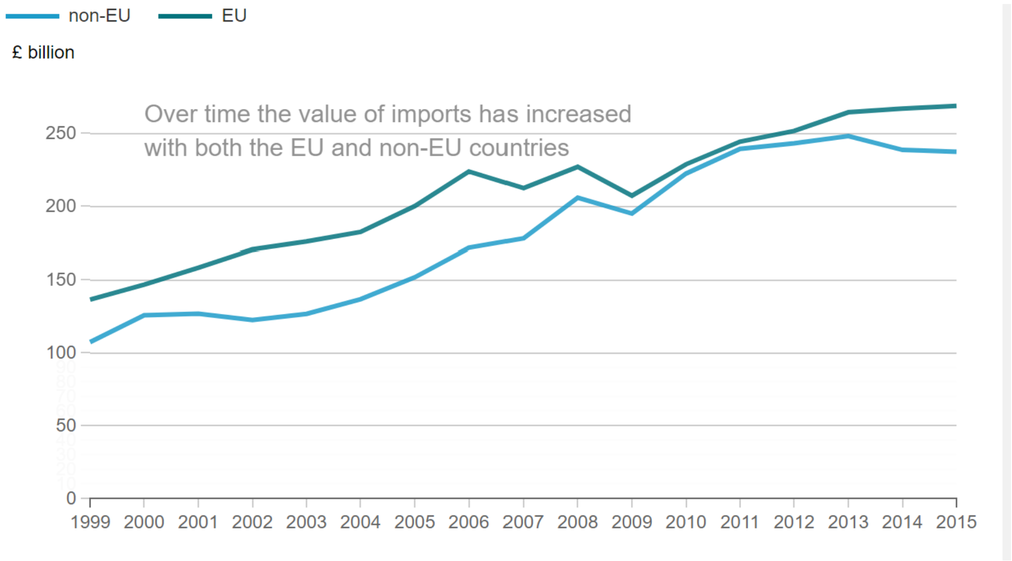
Although the United States accounted for the largest share of UK goods and services exports in 2014, Germany, the Netherlands, France, Ireland, Belgium, and Luxembourg, Italy, and Spain are seven of the UK's biggest trading partners.

In 2015, UK sent 11% of its goods exports to Germany while 17% of the exports were driven to the US. In other hand 15% of UK imports of goods was from Germany and only 9% came from the US.

Even though the EU market is a significant destination for UK exports and a source of UK imports, the UK is a minor player in the EU due to the latter’s huge size of Market.

Over the last 15 years, the volume of EU exports to the UK has been dropping steadily, but it has increased slightly in the last five years. This could be attributed in part to the UK economy's recent rapid expansion or the pound's latest resilience against the euro, which could have resulted in higher UK imports.

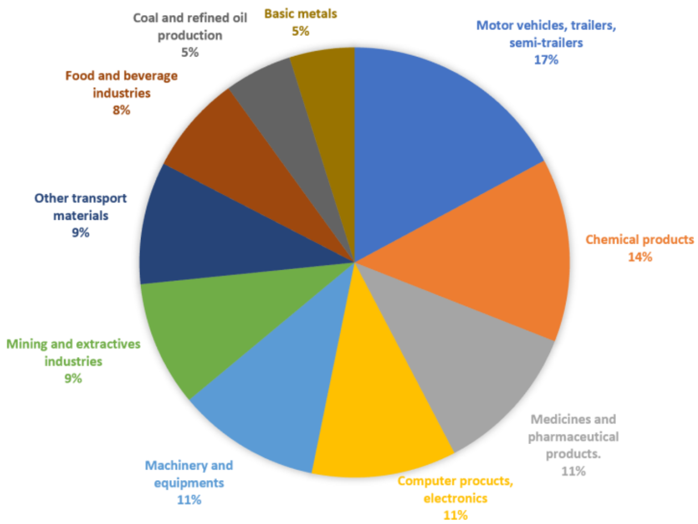
Figure 7: Value of UK imports (goods and services) with EU and Non-EU countries, 1999 to 2015



Source: Balance of Payments, UK: Quarter 4 (Oct to Dec) and annual 2015 Office for National Statistics (ONS)

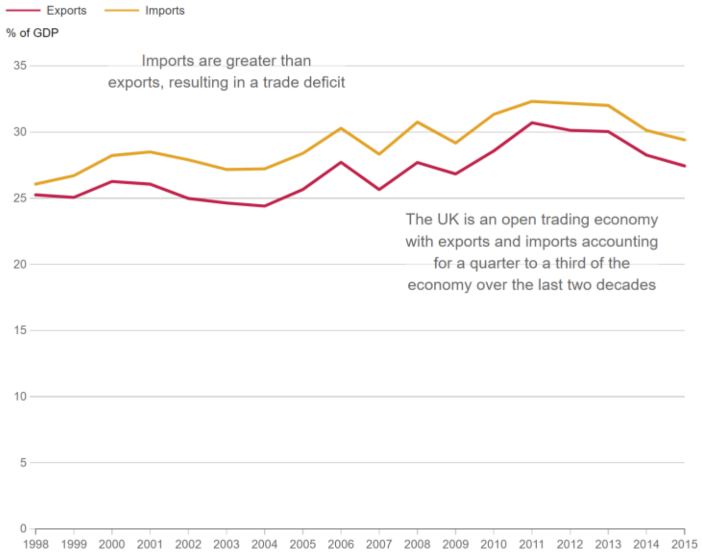
A close look to trade statistics between UK and the EU reveals that UK has a trade deficit in goods since its imports of goods from EU countries are greater than its exports of goods. However, UK has a surplus in services with the EU which means UK exports more in services than it imports.

Figure 8: TOP 10 UK's products exported to the EU (£ million)



Source: Office for National Statistics (ONS) 2016

Figure 9: Imports and exports as % of GDP of UK over time



Source: Office for National Statistics (ONS)

Britain is also an important component of the European Union economy. With Britain, the GDP of the European Union is greater than the case of all other individual economies, including the United States and China. But without Britain, the GDP of the European Union would be tidy behind the United States and China.

- **Services:**

According to the British Treasury, the European single market has helped grow and develop the complex web of economic and financial ties between Britain and the European Union. These links have contributed to the growth of the service sector in Britain, which accounts for around 80% of Britain's GDP, including service industries and complex manufacturing activities that rely on cross-border supply chains, to a large extent with the European Union.

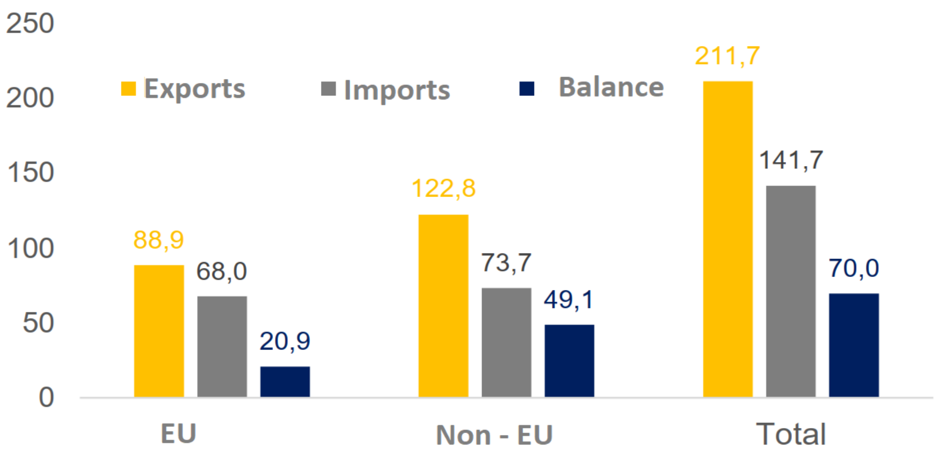
In the area of commercial services, Britain is the second largest exporter (7.3% of the world total) and the fifth largest importer (4.5% of the world total).

British services exports amount to £ 89 billion to the EU (42% of the total) and £ 123 billion outside the EU (58% of the total).

British services import amount to £ 68 billion from the EU and £ 73.7 billion from the rest of the world.

In total, the UK's services balance towards the EU is in surplus by £ 21 billion and towards the rest of the world by £ 49 billion.

Figure 10: UK services balance (2015, £ billion)

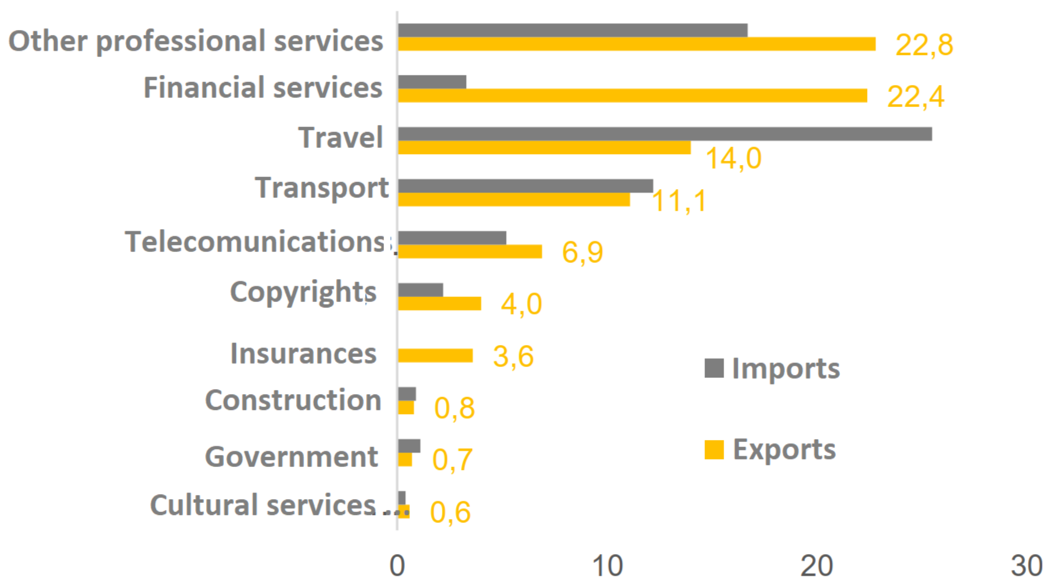


Source: Office for National Statistics (ONS) 2016

The breakdown by sector shows that exports of financial and other professional services to the EU amount to £ 45.2 billion, or 50% of total UK services exports to the EU.

Britain's exit from the European Union could lead to significant tariff increases in these sectors relative to imports from Britain. In other areas, such as metallurgy or electrical technology, the European Commission imposes mostly MFN fees. Thus, Brexit could have a strong, heterogeneous effect on Britain's sectors.

Figure 11: UK services balance with the EU (2015, billion £)



Source: Office for National Statistics (ONS) 2016

In 2016, financial and insurance services contributed £ 124.2 billion to the total value added to the British economy, or 7.2% of the total value added. There are also more than 1 million jobs in the financial services and insurance sector (3.1% of all British jobs). Britain had a trade surplus of more than 60 billion pounds in the financial and insurance sectors. In the year 2016.

In the period 2015-16, the banking sector alone contributed £ 24.4 billion to UK tax revenue through corporate tax, income tax, National Insurance and bank tax.

Total exports of British services (excluding travel, transportation and banking) recorded a record growth in 2016, from 123.2 billion pounds in 2015 to 142.7 billion pounds in 2016, an increase of 15.8%. Travel, Transport and Banking) record growth in 2016, rising from 10.2 billion pounds to 68.7 billion pounds, an increase of 17.4%. The information and communication sector recorded the strongest growth in 2016 in terms of exports and imports of services in Britain in 2016, with an increase of 6.5 billion pounds and 5.1 billion pounds sterling in a row.

The European Union is the geographic region that witnessed the largest increases in total exports and imports of services in Britain, with increases of 9.2 billion pounds and 5.0 billion pounds in the year 2016. Exports of financial products in Britain contributed the most to the increase in 2016, when they moved from 14.9 billion pounds in 2015 to 18.4 billion pounds in 2016.

- **Foreign Direct Investments (FDI):**

A second important contribution to the growth effects of EU accession came through foreign direct investment (FDI).

According to the World Investment Report 2017 issued by the United Nations Conference on Trade and Development (UNCTAD), Britain was the second largest recipient of foreign direct investment in the world in 2016 after it ranked 12th in the previous year.

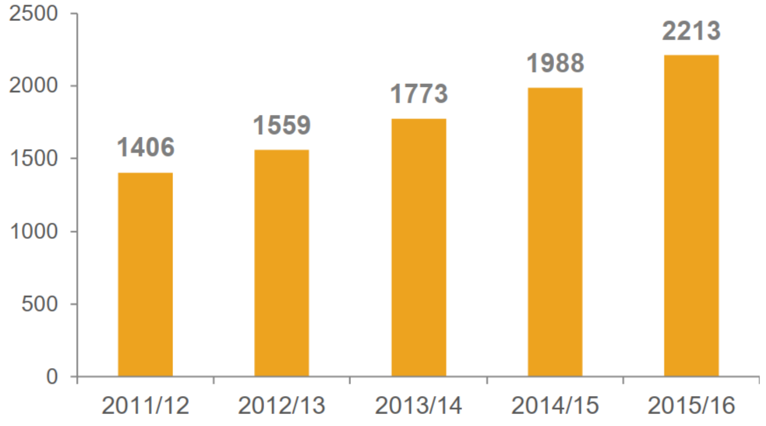
Britain was ranked seventh out of 190 economies on the World Bank's 2017 Doing Business ranking. The largest share of foreign direct investment inbound to

Britain goes to the financial services sector, and half of Britain's current investment stock of one trillion pounds comes from European Union member states.

UK direct investment projects have grown significantly over the past 5 years (+ 57%).

For the year 2015/2016, 2,213 projects were identified for a total of 82,650 jobs created or preserved.

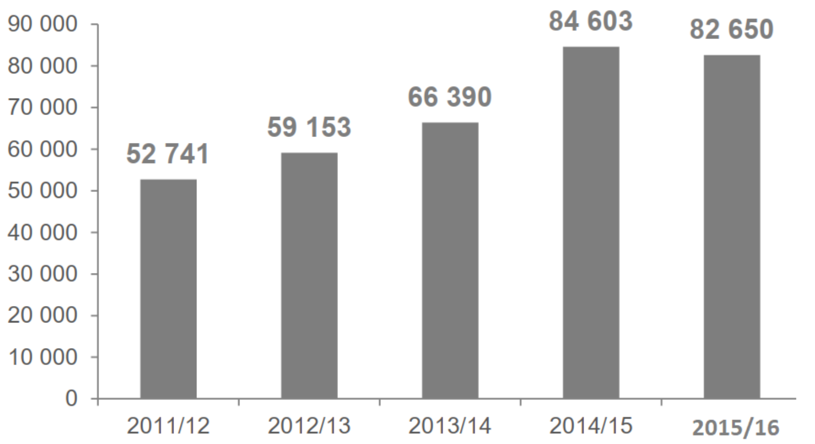
Figure 12: Numbers of FDI projects in UK



Source: Department for International Trade, 2016

UK direct investment projects have grown significantly over the past 5 years (+ 57%). For the year 2015/2016, 2,213 projects were identified for a total of 82,650 jobs created or maintained.

Figure 13: Numbers OF Jobs generated by FDI projects in UK



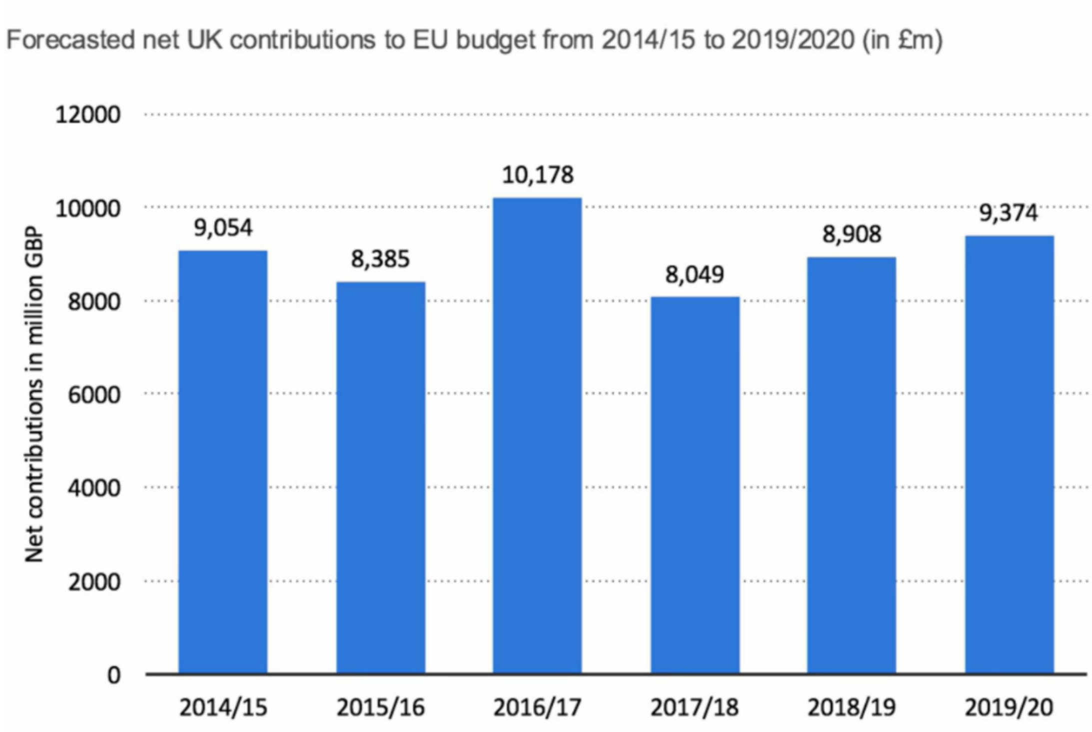
Source: Department for International Trade, 2016

About £1 trillion in foreign direct investment (FDI) has been invested in the United Kingdom, with about half of it coming from other European Union countries

(EU). The UK's attractiveness to foreign investors stems in part from its easy access to the EU's Single Market. Higher trading costs with the EU after Brexit are expected to depress FDI.

The findings of a study ("Bruno, R., N. Campos", S. Estrin and M. Tian. 2016) conducted to estimate the influence of being in the EU on FDI suggest that being in the EU has a statistically important positive effect on inward FDI. Joining the EU for UK does not come with benefits only, the UK and all members should contribute to the EU budget.

Figure 14: UK's net contribution to the EU budget



Source: Statista

To sum up membership has raised UK income levels appreciably and by much more than 1970s' proponents of EU entry predicted.

The UK's actual GDP per individual increased when it became a member of the EU. The greater economic integration that EU membership entailed resulted in a significant rise in trade, which had a positive impact on wages. These positive effects stem from the EU's success in increasing trade and the impact of stronger competition on UK productivity.

The economic benefits of EU membership for the UK have far exceeded the costs of budgetary transfers and regulation.

In the context of the 1970s at which point the UK had endured a long period of protectionism, the 'shock' of joining the EU had favourable effects on productivity and was part of an effective antidote to relative economic decline which worked through strengthening competition as contemporaries suspected might be the case. (NICHOLAS.C 2016 Paper:7)

EU membership comes with requirements that are often seen as fees that must be paid in order to achieve the above-mentioned income benefits. Budgetary contributions and many more rules like accepting immigration flow and oriented EU regulations would be among many reasons which would lead Britain to take the road of Brexit.

CHAPTER III. BREXİT PROCESS AND POTENTİAL ECONOMİC OUTCOMES FOR THE UNITED KINGDOM

3.1. The road to Brexit before and after the referendum

The relationship between the United Kingdom and its neighbors is quite different from the relationship between continental countries, due to its insular nature and, above all, its history.

On May 11th David Cameron was invited to form a government by Queen Elizabeth II, during his term of office, the United Kingdom people' s view of the European institutions has changed, with Mr. Cameron who was always calling for a renegotiation of the European treaties. The different positions are becoming more dividing and a political line is being formed under the title of Brexit, a word composed of British and Exit to define an exit of the United Kingdom from the European Union becomes very radical. Several characters were affirmed as Nigel Farage, leader of the independence party of the United Kingdom. But also other individuals directly in the party of the Prime Minister, the name of Mr. Boris Johnson, mayor of London from 2008 to 2016, is a who took up a lot of space in the public debate. In addition, the migration issue was also among the key debate subjects which enhanced the calls for renegotiating an exit from the European Union.

In the perspective of a second term, David Cameron launched his electoral campaign on a very simple promise: A referendum for the people in which a simple question will be asked about the UK versus the European Union, “IN” or “OUT”? thus the referendum was scheduled for June 23th 2016. The outcome of the vote was uncertain until the day before the vote.

As a result of the vote regarding whether the United Kingdom should stay a member of the European Union or leave it 51.9 % of Britons expressed their rejection of the Union, evoking the exit through Article 50 of the Treaty of the European Union. Therefore, the UK announced beginning of a year of transition. The day after the referendum on June 24th 2016, David Cameron resigned from his position as prime minister of UK.

Geographically, the votes were described as heterogeneous since the city of London, Northern Ireland and Scotland have voted in majority to remain in the EU. A climate of panic surrounded Europe, the European Council convened to deal with the Brexit on 28 and 29 August.

July 13th July 2016**:** Mrs. Theresa May, former Minister of the Interior in the government of David Cameron, was appointed Prime Minister. He was also responsible for forming a new government.

October 1st 2016: M. Michel Barnier officially started his new position as head of the Brexit negotiations on the European side.

March 29th 2017: Teresa May notifies the President of the European Council, Mr. Tusk, of the activation of Article 50, it was validated 7 days before by the British Parliament. The Europeans was well prepared and thus set crucial points that must be respected by next April. The negotiations were coordinated by the necessity of transparency and the nationals' interest.

June 8th 2017: Prime Minister Teresa May suffered an electoral defeat; she lost her absolute majority in the English Parliament. Therefore, she was forced to ally with the Northern Irish party of the Democratic Unionist Party. She must then come to terms with them, otherwise she could not lead the country.

September 11th 2017: the transition period began to take shape very slowly as the end of the sovereignty of European law over national law is voted. At the end of the year, Theresa May obtained from Europe a revision of the bill that the UK will have to pay when they leave in December and the beginning of a new round of negotiations. The Brexit of Theresa May divided her camp between as “Brexiters” and “Remainers”. Many points of disagreement have slowed down the negotiations, such as the case of the Irish borders.

July 9th 2018: Boris Johnson, then Minister of Foreign Affairs, resigned over a disagreement on the prime minister’s plan to leave the European Union. In addition, in September 2018, the Europeans in their turn rejected May's plan.

November 13th 2018: An agreement for the exit between EU and UK negotiators was found. However, the British Parliament rejected the agreement negotiated for 2 years by Theresa May, her Government and the team of Michel Barnier. Thus the UK's Prime Minister who submits her resignation after nevertheless having left the option to the British deputies to organize a second referendum on the future of the country.

July 23th 2019: Boris Johnson became Prime Minister. He threatened the Europeans and the British with a no-deal, even if he stressed always that this is what nobody wants. He wanted to find a way out of this process started 3 years before.

October 17th 2019: A new agreement is agreed, announced Jean-Claude Juncker, President of the European Commission. The agreement took into account the Irish situation. It established customs controls at the entrance to Northern Ireland. In October, the end of the negotiations on the agreement was also delayed until 31January 2020.

On January 9, the Brexit agreement is validated by the British Parliament. The United Kingdom left the European Union.

Figure 15: Map of the EU after Brexit

Source:www.investopedia.com

Three years and a half after the referendum of David Cameron. Negotiations on the future relationship between the two parties began. These negotiations would finish on 31/12/2020 and took place in a very particular context, that of COVID-19. Which would stop the debates from June 15, the rhythm will be accelerated to avoid the length of the previous negotiations. Moreover, the case of Ireland divided again during the year since the UK government wanted to put in place a law on the domestic market which goes against the resolutions taken previously. The agreement for trade, cooperation was found on 24/12/2020.

The main arguments of advocates of Brexit (Brexiters) and those who wish to remain in the European Union (Remainers) vary from immigration to political sovereignty to the economy.

- **Immigration** :

Brexiters: Supporters of the Brexit believe the country should regain control of its borders to limit immigration from the EU, in order to reduce social welfare payments, free up public services and reserve jobs for Britons. The country saw a record net migration in 2015 of 336,000 people, including 180,000 from the EU.

Remainers: Supporters of remaining in the EU argue that immigrants contribute more in taxes than they cost the state, especially because they are a young population. The contribution of EU migrants is 34% higher than what they receive, according to a 2013 study by the Centre for Migration Research and Analysis.

- **Economy :**

Brexiters: An exit from the EU would allow the UK to regain its net contribution to the EU budget. Brexit would allow GDP to rise by 0.6% to 1.6% by 2030, according to the most optimistic forecasts of the Open Europe think tank. Moreover, The UK could maintain its trade relationship with the EU via a free trade agreement, like Switzerland or Norway.

*Remainers***:** "A Brexit would be economically disastrous! An official study predicts a fall in GDP of between 3.4% and 9.5% depending on the scenarios considered. This is equivalent to an annual net loss of £36bn (€47bn) of the kingdom's revenue, with each British household £4,300 (€5,300) poorer" George Osborne, Conservative finance minister. (Treasury analysis :2016 P:8).

In 2015, the EU was the UK's most important trading partner, contributing for 44% of exports and 53% of imports. According to the Centre for European Reform (CER), membership of the EU has boosted UK exports by 55%. According to Open Europe, the Brexit could result in a 0.8 percent to 2.2 percent loss of growth.

Without access to the single market, the UK would lose some of its foreign direct investment (FDI), which accounts for 48% of total FDI in the EU (£496 billion in 2014). Furthermore, in order to maintain access to the single market under the same terms as Switzerland or Norway, the United Kingdom will have to commit to the financing of numerous European programs.

- **Regulations**

Brexiters: Belgium imposes too much regulation and paperwork, at a significant cost to the economy. According to a study by Open Europe, the cost of the 100 most binding regulations amounts to £33.3 billion per year.

Remainers: With the EU as its main economic partner, the UK will have to continue to comply with EU regulations without being able to make them.

- **UK influence**

Brexiters: The UK would remain an influential voice, a nuclear power and a member of "NATO" and the UN Security Council.

Remainers: Leaving the EU would lead to a loss of UK influence in the world, and increase the chance of another independence referendum in Scotland, which is strongly a big "Remainer".

Essentially Brexit means that UK would leave the European Union without any formal agreement. No deal on how the Irish border might operate after Brexit. One of the most sensitive issues in the whole process. No deal on assuring the rights of UK citizens in the EU and no deal on the money the UK had agreed to pay the EU to settle its financial obligations. With no deal that also be no transition period which the UK and the EU were meant to negotiate a trade deal for the future. Instead, all the rules and regulations that have governed the UK's relationship with the rest of Europe for nearly 50 years would disappear overnight without very much to replace them.

The UK's ability to trade completely freely with its neighbours would come to an end. Very long queues at borders leading certainly in the short run the shortages of some food and medical supplies security links would also suffer.

The police would no longer have access to European criminal databases and vice versa. The EU has agreed a series of measures to provide some continuity in case of a no deal Brexit. Among them, making sure planes can continue to fly British buses and coaches still have permission to cross the channel, but these are things the EU has decided to do on its own without consulting the UK. They are like mini deals. In fact, they are pretty limited in scope, and they are only temporary.

Supporters of no deal Brexit argued that's all fine and the UK would have billions of extra pounds to spend money which would have had to be given to the EU if the UK left with a deal.

But opponents say the shock to the economy of a no deal. Brexit would cost far more than any savings in anyway. That issue of money was always one of the first items on the agenda. The UK government said always it just wants to get Brexit done. It wanted a deal, but it is prepared to leave without one if it has to. Pretty difficult to predict exactly what might happen in the event of no deal because no modern industrialised economy has ever tried to do anything quite like this before.

The terms « Hard » and « Soft » Brexit are also used to describe the two potential scenarios of leaving the EU:

- **Hard Brexit:**

Means that the United Kingdom leaves the EU Single Market and will do the trade under World Trade Organization rules .Under WTO rules, each member must provide the same market access including charging the same tarriffs-to all other members as the most favoured nation.

- **Soft Brexit:**

Involves the option of staying in the Single Market (like Norway). As a member of the European Economic Area (EEA), Norway has a free trade agreement with the European Union, which means that there are no tarrifs on trade between the two.

The Brexit Agreement Signed on December 24, 2020 between the European Union and the United Kingdom, the new "trade and cooperation" agreement between the two parties entered into force on January 1, 2021.

Although this new agreement would not achieve the same degree of cooperation as when the UK was a member of the EU, it goes far beyond conventional free trade.

The main points of the agreed trade and cooperation agreement include the following :(The UK-EU Trade and Cooperation Agreement: summary and implementation)

- Trade: There will be no tariffs or limits on products trade as long as origin laws are respected. Non-tariff barriers still increased, but customs and trade facilitation programs have been implemented to reduce it.
- In the event of non-compliance with tribunal decisions, all sides are entitled to cross-sector retaliation (through suspension of obligations, including imposition of tariffs). This type of cross-sector retaliation is popular in the economic relationship.
- Level playing field provisions: Both parties have the right to take counter-measures including imposition of tariffs, subject to arbitration, where they believe divergences are distorting trade. There is also a review mechanism where this occurs frequently.
- Subsidies/state aid: Both parties must provide a well-functioning subsidy control system and independent monitoring. If a conflict cannot be settled by consultation, either party may impose remedial action.
- Fisheries: For a five-year term, 25% of the EU's fisheries quota in UK waters will be allocated to the UK. Following that, there will be annual fisheries opportunities meetings. If one side restricts or withdraws access to its waters without consent, either party would be free to enforce tariffs on fisheries. When one party violates the fisheries laws, the other party may suspend access to waters or other trade provisions.
- Security: Data exchange, policing, and legal cooperation are all part of a new security relationship, but access to EU databases is limited. The European Arrest Warrant has been replaced with a revised surrender agreement. In the event that the UK or a Member State no longer adheres to the European

Convention on Human Rights, either side can instantly cancel cooperation.

- EU programs: Horizon Europe (Research), Euratom Research and Training, ITER fusion, and Copernicus are some of the EU programs that the UK will continue to participate in (satellite system).
- Review and Termination: The TCA will be reviewed and terminated every five years. It may be terminated with 12 months' notice from either party, and more quickly on civil rights and rule of law grounds.

So It took almost five years and two prime ministers and created a huge rift in British politics. But finally Brexit is over. UK has reached a deal with the European Union. It's more than just trade, though it covers everything from food and drink to immigration, from fishing to counter terrorism.

Some of the main things that are going to change. First off, there's the impact on trade and business. The UK will leave the EU single Market and Customs union for some companies that'll mean adapting to new rules and potentially doing more paperwork as well. But the UK government says under this deal it will avoid any trade tariffs. That means that companies trading between the UK and the EU won't have to pay extra fees. Next is immigration which was one of the main issues debated in the run up to the Brexit referendum, and this New Deal does what many Brexit supporters wanted by ending the free movement of workers coming into the UK. Instead starting on first of January, UK will have a points based immigration system. That means foreign citizens will have to fulfil certain criteria in order to come and live in the UK, but it will be made easier for workers and skilled persons doing a job in which the UK has a shortage. Fishermen from EU countries have access to British waters, but under the new deal the government declared that EU's fishing rights will be reduced and then after a few years we'll be able to negotiate the arrangement each year. The UK's annual membership fee for the EU will end, but there are some bills UK do still own that will have to pay off. And if it wants to join any EU schemes like scientific research, then that will also come into cost.

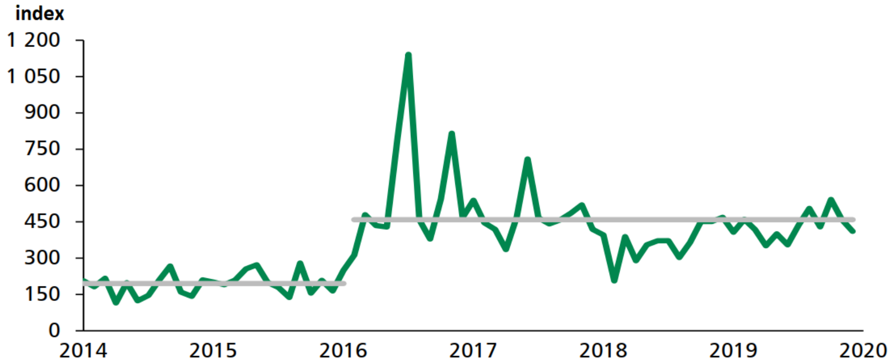
3.2. Potential economic outcomes for the United Kingdom after Brexit

The beginning of the 2016 referendum campaign has immediately increased economic uncertainty in the UK, which then spread to British economy.

Before the referendum, it was one of the strongest among the major advanced countries. However, starting from 2016, the UK's real GDP was less than that of the euro zone or the United States.

Despite the fact that the Brexit was not yet taken place, the uncertainty surrounding the future UK-EU relationship was high. The economic policy uncertainty index (EPU) recorded an unprecedented increase at the moment of the referendum in 2016 and since then has been maintained at relatively high levels in comparison to historical levels. These concerns would have already implicated a change in the behaviour of firms and households, some of which have been contributing to the slowdown in UK economic activity observed since 2016.

Figure 16: UK- Index of Uncertainty of public policies



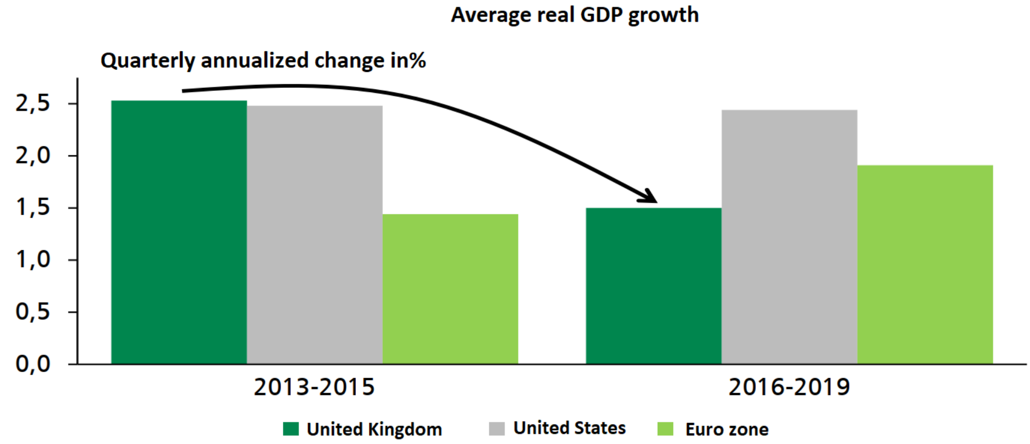
Source: www.policyuncertainty.com

Uncertainty escalated from the beginning of the 2016 referendum campaign referendum campaign and has remained high since that time.

It seems that it is especially the investment of businesses that has been slowing down over the past few years. The gap is also clear when we compare the evolution of British investment with that of other countries.

We can see in the next graph that growth has clearly decreased since 2016 in the United Kingdom.

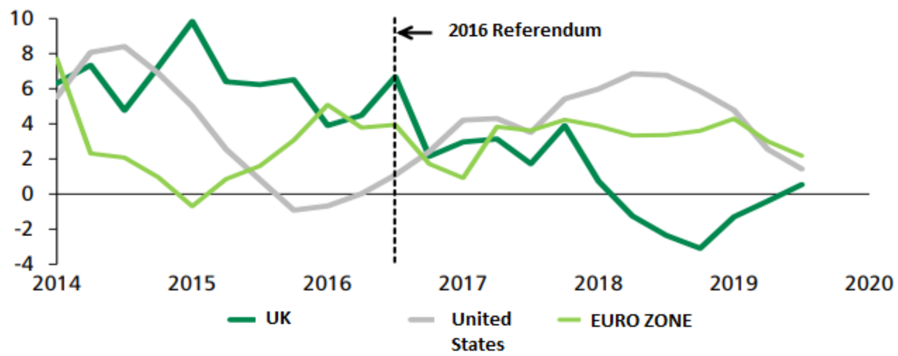
Figure 17: Average real GDP growth between 2016 and 2019



Sources: Office for National Statistics, Bureau of Economic Analysis, Eurostat

Firms are usually sensitive to the political-economic environment when making new investment plans. Given the uncertainty surrounding future relations between the United Kingdom and the European Union, firms tend to choose a cautious strategy and pause renewal of their investments until they are confident that the investments made will be beneficial. Business investment has stopped growing since the Brexit referendum.

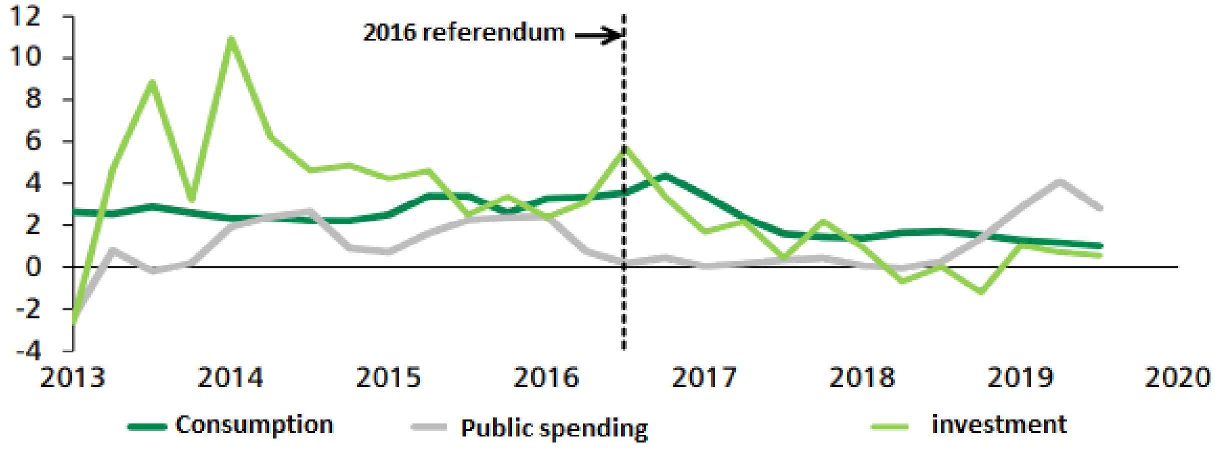
Figure 18: effects of uncertainty on UK's firm's investment



Source: Office for National Statistics

Uncertainty has affected business investment of the UK British companies. Businesses are not the only ones concerned by the negative news phenomenon. Uncertainty about future income flows since it can be related to employment opportunities has made households to postpone consumption.

Figure 19: effects of uncertainty on UK's domestic demand



Source: Office for National Statistics

The outcome of the most recent study (Lattore et a. (2020) has revealed that the negative impact of the two possible Brexit scenarios would be more significant in the UK compared to the EU:

1. UK GDP is expected to shrink by 1.23% and 2.53% under a soft and hard Brexit respectively. In comparison, for the EU-27, the decline in GDP would be much smaller: 0.16% and 0.35% respectively aa soft and hard Brexit.
2. The cuts in domestic consumption are more marked than the drop in GDP in both regions. After a hard Brexit, the loss in consumption is 3.17% ($62.70bn) for the UK versus 0.59% ($57.98bn) for the EU-27. In the case of a soft Brexit, the loss of consumption would be 1.56% ($30.82 billion) in the UK and 0.27% ($26.18 billion) in the EU-27.
3. Changes in non-tariff barriers (NTBs) represent the highest proportion of the total negative impact, and changes in FDI also have an important role; they contribute around one third of the decrease in GDP and private consumption in the UK and the EU-27.
4. NTBs increases cause the most significant cut in worker compensation, although the fall in FDI also has a high negative effect. Average wages and capital remuneration in the UK are expected to fall by 2.83% and 3.34% with a hard Brexit, respectively, and by 1.26% and 1.59%, respectively, with a soft Brexit.

5. The effects on aggregate UK trade in both scenarios are severe. The losses in UK exports would be 16.94% and 7.54% respectively after a hard or soft Brexit, while they would only be 3.48% and 1.54% respectively in the EU-27. The results are very similar for imports. The decline stands at 14.42% and 6.44% in the UK and 3.82% and 1.69% in the EU-27.

Several effects hypothesis can be listed:

1. Regarding labour migration, it is necessary to consider how many employees are being affected and for how many years, to get an idea of a potential impact on the total UK labour supply. This type of analysis is complicated by the fact that there is a lack of information on the skills and sectors of activity of EU immigrants within the UK manufacturing system.
2. Similarly, it is complicated to estimate the impact on FDI and multinationals. Because of the size of multinational activity in the UK (the share of all foreign multinationals in total UK sales is 37.4%; that of EU multinationals is 12.9% ("Theurer A. 2018: p 85).
3. The potential savings for the UK, such as contributions to the EU budget and de-regulation. These positive effects are widely highlighted in two studies: Booth et al (2015) and Minford et al (2015). However, the majority of studies show that the potential gains seen are much lower than the estimated losses.
4. The UK losses would also be larger than those of the EU-27. EU firms may be able to replace the UK trade cut by redirecting trade to EU markets and to countries outside the EU (given the many existing and proposed EU free trade agreements). In contrast, the UK loses its privileged access to the large EU market and will no longer be part of EU trade agreements with other countries. This is quite damaging as around 62% and 66% of UK exports and imports, respectively, take place with countries that are part of an EU trade agreement with third countries or with the EU itself (World Bank, 2016).

- Micro-economics effects:

According to Bloom et al (2019) who used a Decision Maker Panel survey with difference-in-difference estimation find that uncertainty was costly for the UK economy:

1) The UK's vote to leave the EU has generated a high, broad and sustained increase in uncertainty. When compared to previous uncertainty shocks, the Brexit stands out for its continued high level of uncertainty.

2) the anticipation of the Brexit gradually reduced the investment rate by around 11% in the three years following the June 2016 referendum; increased and persistent uncertainty may have slowed down the companies' response to the Brexit vote.

3) The Brexit process is estimated to have reduced UK productivity levels by 2-5% in the three years following the referendum; companies may be spending several hours a week on planning and making future adjustments to Brexit.

Firms that consider Brexit a downside expect to face concrete difficulties for their companies due to divergent regulations, lower labour mobility, limited access to trade and the post-Brexit adjustment of their businesses. Managers are making policy adjustments in the wake of increased Brexit uncertainty, lowering investment rates and hiring.

In the beginning of January, the United Kingdom left the European Union permanently. It has become clear that the Brexit is already driving broad economic change. And there seems to be no end in sight.

As per the European Commission's latest calculations, the Brexit will be an expensive move for the UK, with damage to the British economy by the end of 2022 estimated at over £40 billion. With a gross domestic product (GDP) of around £2 trillion, this is equivalent to around 2.25%. For comparison, an average loss of about 0.5 percent is expected for the European Union states.

The difficult commercial conditions, in particular, are affecting the economy. While the U.K. and the European Union have been able to agree on a free trade agreement, which means that trade will remain tariff-free, at the same time the administrative workload is increasing. For example, British companies have to prove that goods exported to the European Union were mainly produced in their own country. In a global economy with sometimes complex supply chains, this is not an easy task.

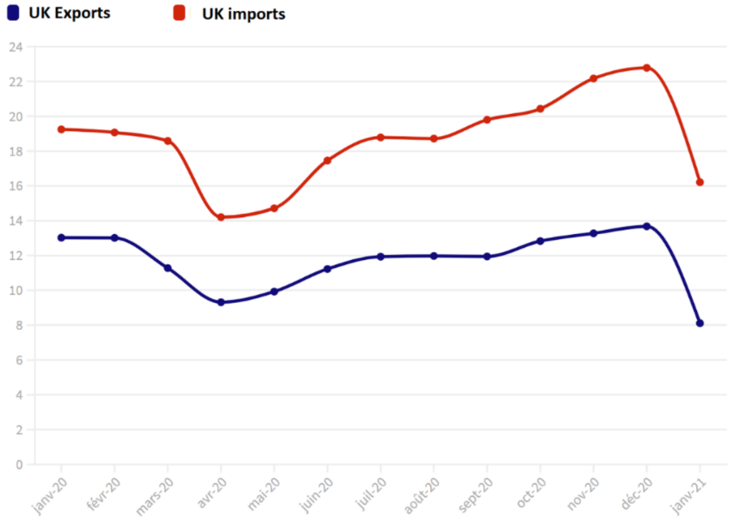
- **Trade:**

Most predictions follow the same economic reasoning. The Brexit will set up new trade barriers between the U.K. and the EU, causing trade to fall and leading to revenue losses through higher prices and less effective production.

This argument suggests that the Brexit will lead to a decline in the UK's trade with the EU compared to its trade with the rest of the world. the rest of the world. So far, there is no evidence that this has happened.

The Brexit is turning UK’s trade upside down. The UK was importing more goods from outside the EU than from the single European market for the first time, according to official statistics. This phenomenon was observed for the first quarter and is unseen since the publication of these data began in 1997, the National Statistics Office points out. The UK imported 53.2 billion pounds’ worth of goods from countries outside the EU, compared with 50.6 billion from those in the European single market, which the country left on Jan 1.

Figure 20: effects of uncertainty on UK’s overseas trade



Sources: Office for National Statistics

The ONS warned, though, that this was only one quarter. It says that given the pandemic and the decline in activity, it is too early to determine whether this is just short-term disruptions or instead longer-term adjustments in supply chains. "The latest trade figures show a shift away from EU countries due to the Brexit.

The UK's Office for National Statistics (ONS) reported on 12 March that UK exports to the EU had fallen by almost 41% and that UK imports of EU goods had declined by 29%.

The UK's withdrawal from the EU single market, which became effective on 1 January, has had a serious impact on its overseas trade, with bottlenecks at ports already under pressure from the pandemic, travel restrictions in January, and delayed orders accumulated since the pandemic began.

In addition to this, there were multiple bureaucratic procedures, additional costs and taxes that affected cross-border trade. The British authorities have also announced on Thursday, March 11, that measures to control some goods from the European Union will not come into force until 2022 to give companies time to adapt.

In January and February, the University of Sussex's UK Trade Observatory calculated that UK textile and agricultural exports to the EU fell by 47 per cent and 30 per cent respectively

According to Eurostat, EU imports from the rest of the world fell by 16.9% in the first month of the year, while its exports fell by 10.8% compared with January 2020.

Overall, the Europeans recorded a trade surplus of €8.4 billion in January, compared with a deficit of €2.2 billion in the same month last year.

In the first two months of the year, EU exports declined more than exports from other countries as the UK ended customs controls. This suggests that Brexit is definitely influencing trade, even if it is still hard to distinguish between the effects of early stocking before January 1, the impact of the confinements and the actual consequences of the Brexit.

➢ **Foreign Direct investments:**

The U.K. is one of the largest FDI recipients among the major advanced economies. Investment is one of the main sources of long-term gross domestic product (GDP) growth. foreign investment can lead to more and better machinery, buildings, and technology available to workers, increase technical progress, and improve productivity.

In a nutshell, foreign direct investment (FDI) in the United Kingdom accounts for a great deal of value to the economy. For example, in fiscal year 2019 to 2020, it generated a grand sum of 56,117 new jobs while 9,021 jobs were saved, according to data from the Department for International Trade.

Moreover, in 2020, the British government introduced a pack of barriers for foreign investors called the new National Security and Investment Bill. The bill was announced during the same time as the inauguration of the Office for Investment (an intergovernmental group aimed to bring more FDI). Which certainly would be confusing messages for investors.

According to officials the bill was introduced to guarantee the protection of sensitive technology and knowledge, while keeping UK in its position as a preferred destination for business

Leaving the EU could affect the attractiveness of the U.K. to foreign investors. There are at least three reasons why FDI in the U.K. may have been boosted by EU membership - and thus why it could be reduced after the Brexit.

- The free movement of capital which is one of the "four freedoms" at the structure of the EU's single market which has been an advantage making it easier for investors from other EU member states to invest in the U.K.
- Membership of the EU single market makes the UK an appealing export platform for multinational firms. Thus they can take advantage of the UK's relatively attractive business environment, while trading freely within friction free trade scheme with the rest of the EU members.

Operating from an EU country is particularly attractive for large companies that have complex supply chains or networks of subsidiaries established in different EU countries.

The Brexit will likely have a negative impact on inbound FDI. implies that leaving the EU will reduce inward FDI to the UK by about 22 percent. (Dhingra. 2018).

These investment shortfalls will hurt UK productivity and could reduce real incomes by 3.4 percent. This is higher than the above study's estimate of static income losses due to trade, which is 2.6 percent, even under a "pessimistic scenario."

- **Impact on Labor force and Jobs:**

Professional social networking site "LinkedIn" reported that its database shows that the number of its users who left Britain for the European Union has exceeded the number of arrivals from the Union in the past year after the outbreak of the new Corona virus and concerns over Britain's exit from the Union in the past year.

At the same time, the rate of workers leaving Britain accelerated in the early months of this year, although the number of people coming to Britain from outside the Union remained higher than the number who left from outside the Union.

The data indicates a change in the structure of the British workforce, which could affect the prospects for economic recovery, according to Bloomberg News.

According to the same professional platform, two main trends are emerging an increase in backward migration from Britain to the European Union, and an increase in immigration to the UK from outside the European Union.

The figures highlight the size of the labor force in Britain, a country emerging from its worst recession in nearly three centuries. Bloomberg said the "LinkedIn" data adds unsourced evidence to the ongoing debate about the number of workers who left Britain after leaving the European Union, as some experts estimate the number to be around 1 million foreign workers, while government estimates put the number at less than 180,000 workers. The foreign-born left Britain after it left the Union.

LinkedIn figures show that the largest number of workers leaving Britain went to Germany, France and Spain, whereas the largest number of workers from India, South Africa and Nigeria, as well as those with IT experience, formed the largest portion of expatriate workers in Britain from outside the European Union.

The employment forecast is progressing among large British companies, but the outlook for the labor market remains "the most negative in Europe" in the United Kingdom, according to a study carried out by the recruitment agency Manpower.

The Labor Market Outlook Index calculated by the firm Manpower remains the lowest in Europe, below that of Italy and Spain. By contrast, Romania, Belgium, Sweden and the Czech Republic have the highest indices.

Employment is clearly still surrounded by uncertainty as most employers remain cautious and want to monitor the impact of the current pandemic and the long-term effects of the Brexit before making major employment decisions.

The measures taken by the central government to assist employees and the liberal professionals have contributed to limiting the increase in the unemployment rate, which is estimated at 4.5 percent in 2020 (compared with 3.8 percent the previous year). Nevertheless, as a result of the slow economic recovery in 2021 and the end of government aid, the unemployment rate is expected to climb to 6.1% in 2021 (IMF). Rates are higher for youth aged 16-24, at 14.5 percent in the August-October 2020 period (compared with 12.1 percent in the January-March 2020 pre-pandemic quarter - ONS). The UK's GDP per capita is projected at 48,698 by the World Bank (latest available data), but the UK's relatively strong macroeconomic performance hides vulnerabilities and inequality. Thus, as the IMF has emphasized, building up human capital is a high priority. The government's efforts to invest in infrastructure, increase the provision of housing and expand women's participation in the labor market will also help to sustain more durable and inclusive growth.

- **Impact on Services Sector:**

The United Kingdom's economy is highly dependent on the service sector, which is the engine of the economy, employing over 81% of the labor force and contributing over 71.3% of GDP.

Table 1: Composition of UK's economic activity by sector.

Composition of economic activity by sector	**Agriculture**	**Manufacturing**	**Services**
Jobs by sector (% of total employment)	**1,0**	**17,7**	**81,3**
Added value (in % of GDP)	**0,6**	**17,4**	**71,3**
Added Value (annual growth in %)	**-1,1**	**-0,2**	**1,8**

Source: World Bank, 2017

The City of London is considered as “wall street” of UK it is the beating heart of the UK economy as it generates 13% of UK’s total GDP.

Although the Brexit took effect on 1 January, the future of the City of London the world's leading financial marketplace is still to be decided. For UK financial services, the bilateral negotiations have only just begun. And this key sector for the UK economy is at risk of further chaos.

Following the uncertainty of a large reduction in financial transactions with the EU more than 400 UK financial firms have relocated their operations, workers and £1 billion (€1,150 billion) of assets to financial markets in the European Union.

The research further states that almost 7,400 jobs have been moved abroad from the UK or created in new EU markets such as Paris, Frankfurt, Dublin or Amsterdam - far below the initial fear that up to 50,000 jobs would disappear from the City according to a study by the New Financial think-tank.

The largest beneficiary was Dublin with 135 relocations, followed by Paris with 102, Luxembourg with 95, Frankfurt with 63 and Amsterdam with 48 relocations.

The number of relocation operations is expected to increase over time according to the same research as Brexit just started, in other hand bankers in UK claims that many relocations of operations have been delayed by travel restrictions introduced to combat the COVID-19 epidemic.

To emphasize the negative effect of financial services migration the study described This reallocation of activity across the European Union as 20-year step backwards.

The banks have transferred or will transfer £900 billion in assets from Britain to the EU, whereas insurance companies and asset managers have transferred over £100 billion in assets and funds, reducing the UK fiscal basis.

The EU market is not the main market for the City, but the impact is still significant, and 30% of EU equities used to transit through the City, which is no longer the case. Boris Johnson also admitted that the Brexit agreement had ignored finance, thereby half-heartedly admitting to a failure on this point. As a result, from

2020 onwards, the financial sector has performed as if the UK was leaving without a deal, making it possible to see the effects of Brexit on this sector.

The City of London will continue to be the leading financial hub in Europe for the near future, but its influence will shrink, which could lead to a reduction in the UK's annual trade surplus in financial services with the EU of £26 billion, the study suggests.

The banking sector is very vibrant, as well as the tourism sector, which generates about 10% of GDP. However, the service sector has not been spared by the Covid-19 crisis in 2020, with total service outputs in October 2020 8.6% below the February 2020 level. Some of the hardest hit sectors include travel agencies, arts and entertainment, accommodation services, and restaurants, all of which are still more than 50% below their pre-pandemic levels (ONS).

- **UK Economy key indicators:**

The UK economy has been slowing since the 2016 Brexit referendum on leaving the European Union. The situation became worse in 2020 due to the Covid-19 pandemic: the GDP fell by 2.2% in the first quarter and then by 20.4% in the second quarter, with an annual drop estimated at 9.9% by the IMF, the deepest recession in the country since The Second World War. Although the government has taken actions to support the economy, business investment and household consumption have decreased. According to the IMF's April 2021 forecast, a recovery is expected in 2021 (+5.3%) and 2022 (+5.1%), based largely on the much anticipated last-minute trade agreement signed between the UK and the European Union, which defines the new terms of future relations and cooperation between the UK and the rest of the EU after Brexit. The EU-UK Trade and Cooperation Agreement has been applicable on a provisional basis since January 1, 2021, after being agreed by EU and UK negotiators on December 24, 2020. While consumption is likely to be a positive contributor to growth over the next two years, uncertainty remains regarding the development of the pandemic, with a new lockdown announced in early January 2021 as a result of the rapid spread of a new variant of Covid-19. The European

Commission forecasts that by the end of 2022, the UK's GDP will remain 5% below the level of the fourth quarter of 2019.

The budget initiatives carried out in recent years have been compromised by the crisis response measures the government had to implement, including part-time work programs, self-employment subsidies, business grants and tax concessions, and additional funding for the NHS, amounting to over 10% of the GDP. Combined with falling revenues, the balance of the general government dropped to 0.5% in 2020, with the debt/GDP ratio increasing sharply to 103.7%, up from 85.2% a year earlier (IMF). Although the public deficit is expected to remain on an improving trend in the medium term (107.1% this year and 109.1% in 2022), the Budget deficit is expected to decrease gradually (-5% and -4.8% respectively). Due to low energy prices and consumer spending, inflation has remained moderate at 0.9%, far lower than the Bank of England's target of 2%, but is expected to rise gradually to 1.5% in 2021 and 1.9% the following year.

Table 2: Growth indicators of the Economy of UK

Growth indicators	2018	2019	2020	2021*	2022*
GDP (Billions USD)	2,00	2,00	2,00	3,00	3,00
GDP(annual growth in %, constant price)	1,3	1,4	-9,9	5,3	5,1
GDP per capita (USD)	43	42	40	46	49
Public finance balance (% of GDP)	-2,3	-2,3	0,5	-5,0	-4,8
Government debt (% of GDP)	85,7	85,2	103,7	107,1	109,1
Inflation rate (%)	2,5	1,8	0,9	1,5	1,9
Unemployment rate (% of active population)	4,1	3,8	4,5	6,1	6,1
Current Account Balance (Billions USD)	-110,69	-87,65	-106,51	-121,50	-133,55
Current Account Balance (% of GDP)	-3,9	-3,1	-3,9	-3,9	-4,0

Source: IMF - World Economic Outlook Database, April 2021

CONCLUSIONS AND RECOMMENDATIONS

The departure from the European Union has not yet shown its promising positive effects on the country's economy. The figures published by the ONS for British foreign trade post-Brexit, and to say that they are not good would be understatement. With exports of goods down 19.3% and exports to the EU plunging nearly 41%, on the biggest fall in a month since these numbers began to be measured in January 1997 according to the ONS.

It is clear that Brexit transition has been far from smooth. The exit from the European single market, which took effect on January 1, has had a strong negative impact on trade, with port bottlenecks already under pressure from the pandemic and travel restrictions in January. In addition to this, multiple red tape, additional and sometimes unexpected costs and taxes have impacted cross-border trade.

Therefore, taking in account the effects of the Covid-19 pandemic and the adjustment time to the new arrangement, the measurements of the impact of Brexit on growth remain unclear. The UK’s economy has been one of the most affected by the Covid-19 crisis with a GDP down by -9.9% in 2020 (-6.8% in the euro zone). The inventories built up at the end of the year, which are leading to inventory depletion, as well as the lock-down at the beginning of the year, adding to the difficulty of understanding how big the Brexit-related contraction is.

The GDP is expected to contract by -4% in the first quarter according to the Bank of England (BoE), with -1% linked to the negative impact of export shortfalls and slowing supply chains. Before a net rebound in activity. But beyond an immediate impact that is expected to grow, we believe the consequences of Brexit will be long-lasting and significant on various perennial aspects of UK growth.

The Trade Agreement did not cover the services sector, and in particular financial services, which accounted for 7% of British GDP, and a large part of the trade surplus with the EU. When leaving the EU, British financial institutions have lost the European passport, and risk obtaining only a few equivalences.

While the impact on growth was expected to be mainly in the first year, the impact on long-term growth may eventually be stronger than expected. The Office for Budget Responsibility estimates the impact of Brexit on long-term growth at 4%, compared to 6% in the case of a 'hard Brexit', continues due to the consequences of the end of the free movement of goods, services, people and capital with the UK's main trading partner.

As a result of the new no-tariff barriers, the UK. will no longer be the gateway to the EU for non-EU countries, and will suffer a drop in FDI inflow as a result of this reduction of influence. For financial services, but also for other manufacturing like Japanese car makers are planning to move their production to the EU. Growth rates will be much slower because of lower productivity gains and a smaller increase in the working population due to fewer migrants from the EU.

These expected losses are not likely to be covered by the trade agreements that the United Kingdom has signed or will sign with third countries, which should reproduce conditions similar to those of their agreements with the EU.

UK's officials are looking to counteract the loss of the European market by being more open to the rest of the world, as Mr. Boris Johnson said when presenting his vision for the United Kingdom in 2030. For the time being, London has reached " Continuity Agreements " with some EU partners (including Switzerland, Chile and South Korea) accounting for 13 per cent of its total trade, a free trade agreement with Japan, which accounts for 2 per cent of British trade, and others are being negotiated with Australia, New Zealand and the United States.

Those agreements are less likely to make up the negative impact of losing the European market access. This is because the main factors that influence trade are cultural and, especially, geographical proximity.

Entire sectors of the British economy are likely to be permanently affected by the Brexit. To prevent an awfully abrupt transition and redesign the United Kingdom's development model, state support for the most vulnerable sectors and households seems necessary.

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