The impact of Brexit on the United Kingdom's economy

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Introduction

- For my topic, I chose to analyze the impact of Brexit (the United Kingdom leaving the European Union) on the United Kingdom's economy.
- The research question I seek to answer is which side of the Brexit argument, 'the pro-Brexit' or 'anti-Brexit', is playing out in the UK today, years after Brexit. I thought this would be an interesting topic to research because the UK is the only country to ever withdraw from the EU after being a member.
- I seek to address my research question by using the pro-Brexit and anti-Brexit positions that are grounded in two different immigration/migration theories as well as open and closed border theory.
- I will argue that the anti-Brexit position has played out since the UK has left the EU and that this has resulted in negative economic growth and decreases in foreign direct investment and trade.

Literature Review

- Everett Lee's Theory of Migration: (1) push factors encouraging individuals to flee their area of origin, (2) **pull factors that attract individuals to a specific country/region**, (3) intervening obstacles that impact migration, (4) personal factors
- Duncan's Theory: **(1) economic and technical factors,** (2) social factors, (3) personal factors, (4) natural causes, (5) miscellaneous factors
- Open Border Theory: (1) there is a moral obligation of democratic nations to accept immigrants/migrants as a response to global injustices, (2) immigration and migration restrictions go against liberal ideologies, **(3) economic power argument that open borders build international solidarity.**
- Closed Border Theory: (1) preserving culture, **(2) sustaining the economy**, (3) distributing state benefits, (4) political functioning, (5) establishing security, (6) political self-determination

Analytic Framework

Pro-Brexit (closed borders): The UK will be better off if they leave the EU

- Trade: (1) trade will still happen with EU countries because it will be in their best interest to maintain the UK's access point to the EU's single market. (2) The UK can negotiate its own trade deals with countries like the United States, China, and Russia, without having to abide to EU free trade agreements.
- Foreign Direct Investment: The UK will still be attractive to foreign investors regardless of EU membership.
- GDP: (1) The UK economy would thrive similar to other not in the EU countries like Norway and Switzerland who are two of the most successful countries in Europe. (2) Over-regulation by the EU has cost the British economy over £125 million
- Immigration: Create tighter border controls and immigration policies to limit the amount of immigrants into the country. No more free movement of people into the UK from EU countries.

Analytic Framework continued

Anti-Brexit (open borders): The UK will be negatively impacted if they leave the EU

- Trade: (1) Over half of the UK's trade is with the EU, bringing in around £400 million to the UK every year. (2) The single market allows the free movement of goods and services, people, etc. which cuts out trade barriers and tariffs.
- Foreign Investment: Foreign investors main reason for investment into the UK is because it's a gateway to the EU's 500 million consumers through the single market. The UK will lose this attractiveness if it leaves the EU.
- GDP: Jobs in the UK are linked to EU membership and if the UK leaves the EU, this would lead to a large decrease in GDP. Also, losing out on the single market and the same trade opportunities with the EU will lower GDP.
- Immigration: Allow immigrants to come into the UK because they increase GDP and the supply of labor in the country.

Research Method

- I will be using the pattern matching method in order to evaluate the data I collected.
- I will be using data from the years since the UK has left the EU and will be comparing it to the anti-Brexit and pro-Brexit positions in order to match it up with which position has played out.
- The variables I will use in my data collection are immigration, GDP (Gross Domestic Product), Foreign Direct Investment (FDI), and trade (imports/exports), and immigration (wages/jobs).
- I decided to use these variables because they are easily quantifiable and are effective measures to evaluate economic impact.

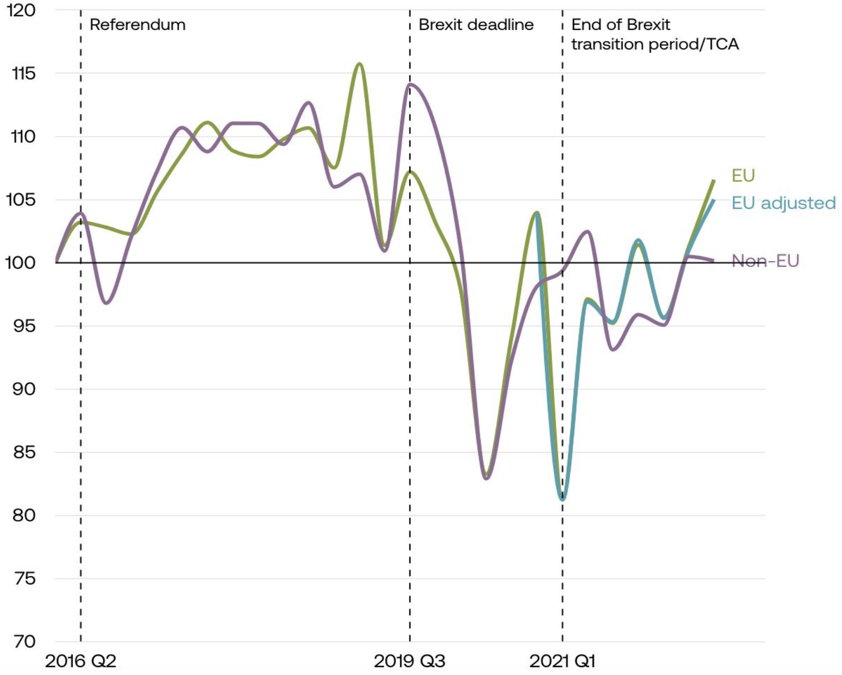
Trade (imports/exports)	Foreign Direct Investment	GDP	Immigration (wages/jobs)
%	%	%	%

Analysis/Findings

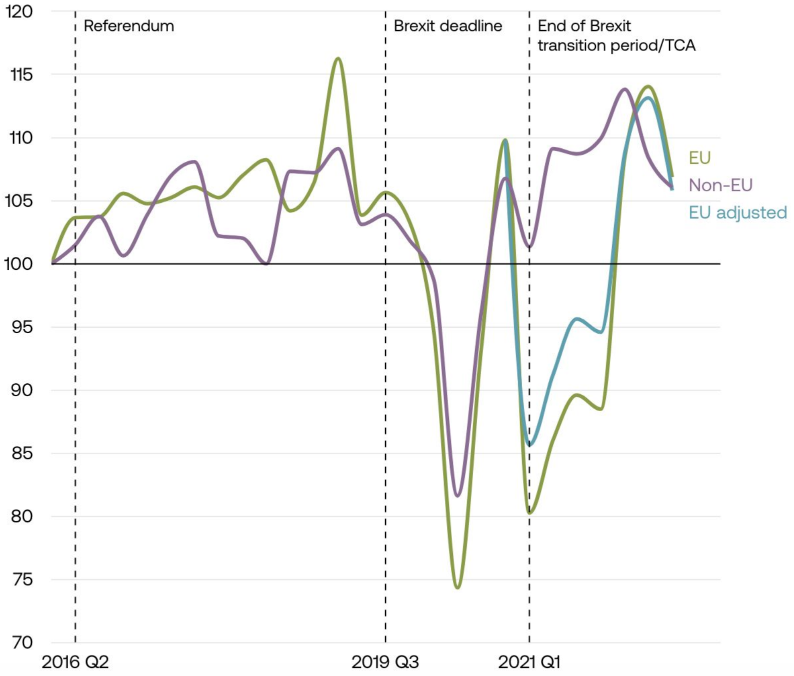
Trade:

- Trade in goods with the EU fell sharply after the Brexit transition period ended. UK imports from the EU dropped by approximately 25% more than UK imports from the rest of the world and UK exports to the EU dropped by approximately 23%.
- The UK's trade openness has fallen more than has been seen in other comparable economies since Brexit. The UK economy is now less open to trade than before Brexit. Trade openness – measured as the ratio of trade relative to gross domestic product – has fallen by 8% between 2019 and 2021, driven by a sharp fall in trade with the EU.

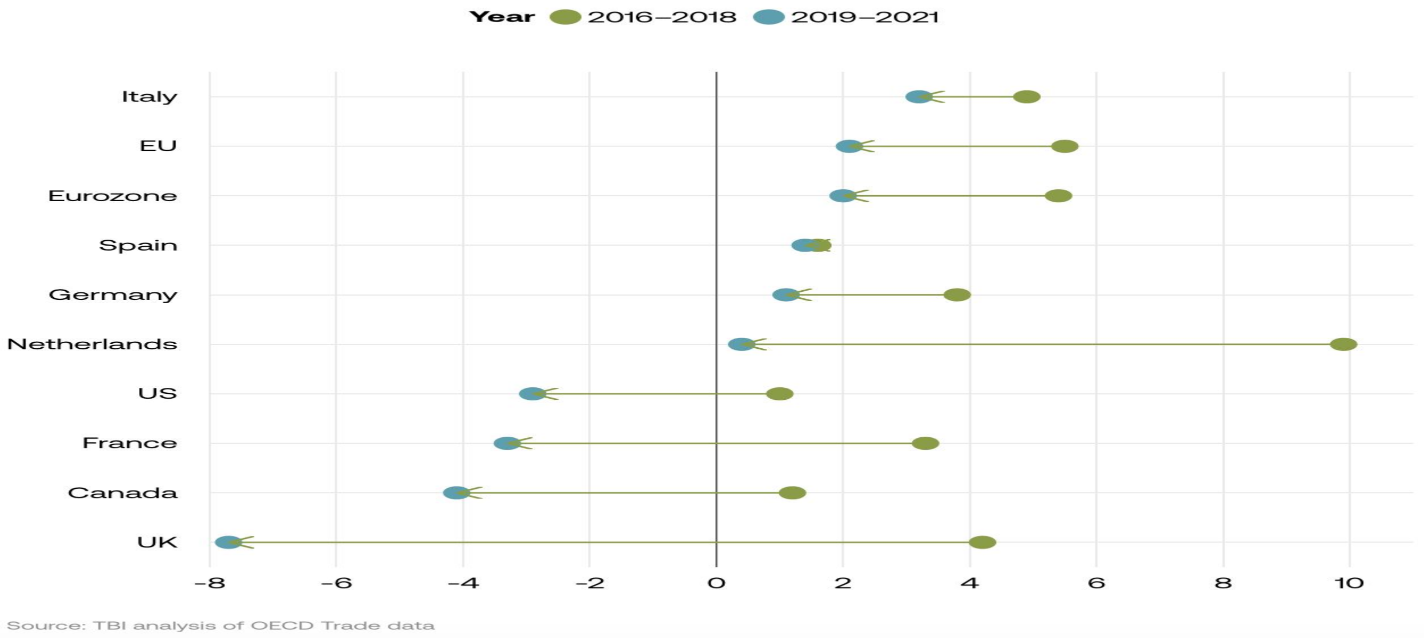
Exports



Imports



Trade Openness



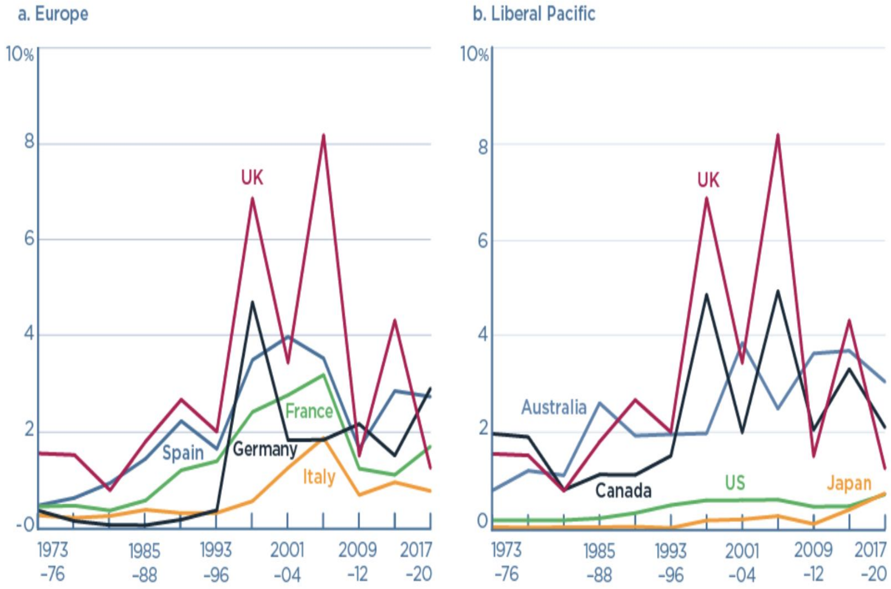
Analysis/Findings Continued

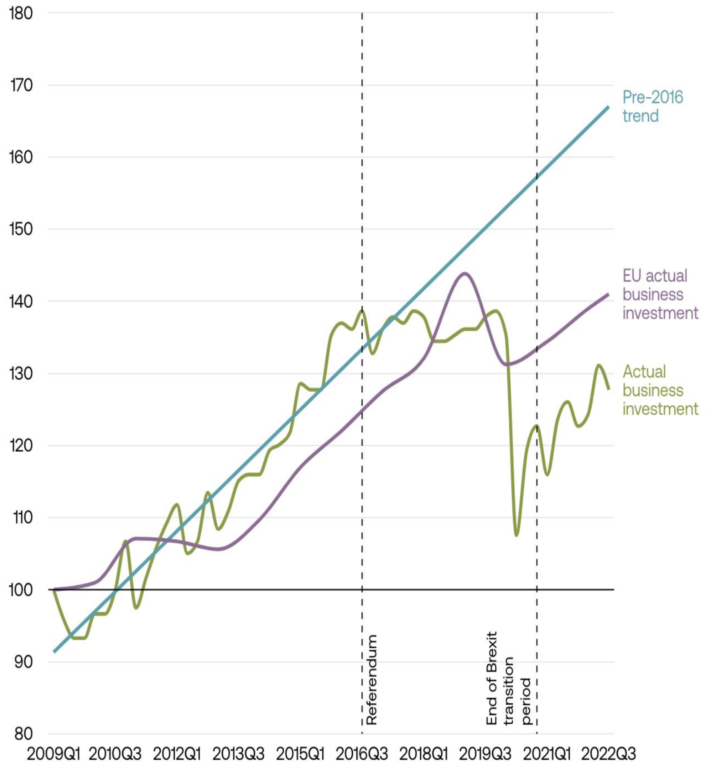
Foreign Direct Investment

- Data shows that there is always a statistically significant positive effect on Foreign Direct Investment (FDI) by being a member of the EU. The magnitude ranges from a 14%- 38% increase in FDI depending on the exact statistical method used with an average of 28%.
- FDI into the UK has retreated significantly since the Brexit referendum. The post-Brexit investment levels are over 30% lower than from when they were in the EU. The decision to leave the EU has fuelled significant uncertainty since the 2016 referendum, undermining business investment in the UK economy.
- Business investment in the UK is 31% below the pre-referendum trend. In the EU, by contrast, business investment is currently 2% above its pre-2016 trend.
- This data aligns with the anti-Brexit position and their argument that investment would decrease once the UK withdrew from the EU. They argued that international companies invest in the UK because of its gateway to the EU's 500 million consumer market. Now, after leaving the EU, the UK is less attractive to foreign investors.

Foreign direct investment into the UK has fallen since the Brexit vote

4-year average foreign direct investment inflows as a share of GDP, 1973–2020





Conclusion/Implications

- Short-term findings and results indicate that the anti-Brexit position seem to be playing out more accurately than those of the pro-Brexit position.
- Post-Brexit UK has seen negative impacts on trade/trade policy, foreign direct investment, and economic growth (measures by GDP).
- These findings may change in the long-run however, these factors and indicators have the potential to change and show positive results of the UK leaving the EU down the line.