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# CROSS-BORDER TRADE BETWEEN EUROPE AND UNITED KINGDOM AFTER BREXIT

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## Abstract

The Brexit vote brought an undesired change in the economic history of the trade between Europe and United Kingdom. This paper reviews and establishes the results and discussions on the economic effects of Brexit on Europe and UK. We tried our best to study all the consequences and gathered plenty of insights regarding the economic impacts of Brexit and the uncertainty it created in the relations between two nations. This paper also shows how the GDP growth of the nations specially UK was impacted after leaving the European Union. Brexit had a large negative impact on economy of UK between 2016 and 2019.

**Keywords** UK economy, Relationship of EU-UK, Brexit, Import-Export prices, Consumer prices, Labor.

## INTRODUCTION

Brexit was the withdrawal of the United Kingdom (UK) from the European Union (EU) on 31st January 2020. The UK is the only sovereign country to leave the EU. The UK was the member of EU and the EC since long time and that is since 1st January 1973. After the Brexit EU laws have no Primacy over the British laws, except in selected areas in relation to Northern Ireland. Under the terms of the Brexit withdrawal agreement the Northern Ireland continues to participate in the European single market in relation to goods and be a de facto member of the EU customs Union. The EU and its institutions have developed gradually since their establishment and during the 47 years of British membership and grew to be of significant economic and political importance to the United Kingdom. The effects of Brexit will in part be determined by the cooperation agreement which provisionally will be applied from January 202 and

came into force in May 2021.

Economists and other analysts believed that Brexit would have damaged immediate and longer-term effects on the economies of the UK and a part of the EU27. Economists thought that the Brexit would reduce the per capita income for UK and will damage the GDP of the UK. The studies found that Brexit-induced uncertainty reduced British GDP, British national income, investment by business, employment and British international trade from June 2016 onwards. The UK's high levels of spatial inequality have motivated interest in forecasting the regional effects of Brexit (McCann 2018). However, studies using different theoretically motivated measures of Brexit exposure give conflicting answers about which regions are likely to be hardest hit. Dhingra, Machin and Overman (2017) estimate the impact of Brexit on local gross value added by interacting sectoral estimates of

the impact of future trade barriers at the national level from Dhingra et al. (2017) with sectoral employment shares by local authority and metropolitan areas. They find that areas with larger services sectors, such as London and the southeast would be worse hit. Interestingly, these areas also had lower Leave vote shares on average. By contrast, using regionalized input-output tables to measure the share of domestic value-added embodied in UK-EU trade, Chen et al. (2018) finds that poorer regions in the midlands and north of England are more exposed to Brexit.[1]

### **LITERATURE REVIEW**

In 2017 United Kingdom gave a formal notice to European Union about the discontinuation of its membership and brought the whole union in shock. Although most of the Britain's establishment backed and wanted to stay back, almost half percent (52%) of voters disagreed and handed a surprise victory to the discontinuation campaign. This occurred nearly in 2019 and was known as Brexit.

#### **Why did the UK decide to take this step?**

Since World War II the period has been marked as a growing period economically and in cultural globalization. Moreover, increasing political integration under the auspices of the European Union was a main issue as well. Brexit proves to be a departure from such a trend, and this was one of the many reasons for UK's departure from European Union. UK leaving the EU means leaving the EU's supranational political institutions and will lead to the erection of new barriers to the exchange of goods, services, and people with the remaining 27 member states. Other EU countries are also likely to suffer economically from Brexit, but their estimated losses are much smaller than those faced by the United Kingdom. Who voted for Brexit and why was the referendum held? Support for Brexit came from less-educated, older, very little successful and more socially conservative

voters who oppose immigration and feel left behind by modern life. Leaving the EU is not in the economic interest of most of these left-behind voters. However, there is currently insufficient evidence to determine whether the leave vote was primarily driven by national identity and the desire to "take back control" from the EU, or by voters scapegoating the EU for their economic and social struggles [2].

#### **Relationship between United Kingdom and European union after Brexit**

After the formal notice from UK to the EU negotiations started and it lasted slight over 2 years span. Article 50 of the Lisbon Treaty allows the negotiations on a withdrawal to last for at most two years. After that period the withdrawal requesting country that is UK in this case automatically ceases from being a member of the European Union. The withdrawal agreement would include Britain's outstanding financial liabilities to the EU, the future status of citizens of both countries living cross borders and the framework for future UK-EU relations; but will not finalize the details of any new relationship (European Council 2017). There are 3 options for them at this stage. First, UK could remain part of the EU's single market by joining Norway, Iceland and Liechtenstein in what is called European Economic Area (EEA). The next option was the EU and UK signing a free trade agreement to govern their trade and economic relations. The other option was, if no alternative agreement is reached, the UK and EU would trade under the most-favored nation terms available to all World Trade Organization members. Instead of having Tailor made free trade agreement, the UK could also seek to form a customs union with European union like Turkey had done. "The agreement also includes level playing field provisions designed to ensure that neither side uses subsidies or changes in labor or environmental standards to obtain an 'unfair'

competitive advantage. These provisions include commitments not to weaken current labor and environmental standards, as well as a novel rebalancing mechanism that allows for retaliatory tariffs or suspension of parts of the TCA if future divergence in standards affects trade and investment between the two sides (Lydgate et al. 2021). However, the dispute resolution mechanisms established to enforce these commitments are yet to be tested.[3]”

**Prices of the goods for consumer and the border prices after Brexit**

The lowering prices of sterling after the leave vote by United Kingdom has been cited in many papers as a quasi-experimental shock to estimate the price effects of exchange rates and movements of goods. There was a significant depreciation on the United

Kingdom side and the consumer prices were very high after the Brexit. Consequently, the medium-to-long-run price effects of the Brexit depreciation are well approximated by treating the UK as a small, neoclassical economy. The UK’s CPI (Consumer Price Index) raised significantly from 0.5% to a high of 3.1% after the referendum. The article that we read also had some significant figures about other trades and prices and the effects of Brexit on the trade between the two countries and other countries that were included in the European Union that are discussed further in this paper in results and discussions. These findings imply that the Brexit depreciation led to a substantial increase in UK consumer prices. Figure 1 represents the data of rate inflation and how the wages were growing in real life. [4]

**Figure1**



Source: Office for National Statistics. Inflation: Annual CPI inflation (series D7G7). Real wage growth: EARN01 3 month average percentage change year on year in Total pay, seasonally adjusted (series A3WW).

Notes: Vertical line indicates date of Brexit referendum (June 2016).

**What happened to the labor market and how was it affected?**

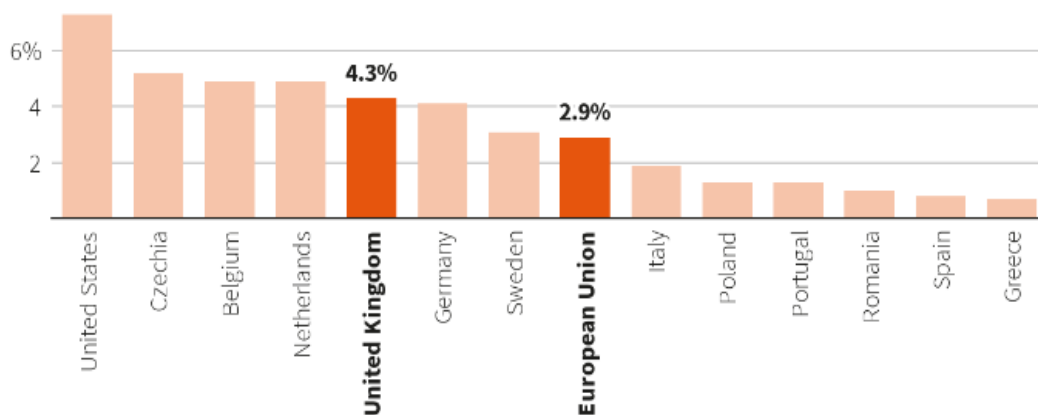
The overall impact on the labor market because of the Brexit was affected and the migration flows also played a role in it. The staff shortage post Brexit put UK market in tight and tough position creating more

pressure for the UK labor market. Jim Hillage a special content writer also said that the Brexit might affect the employment throughout the world and might create a chaos. He cites three main areas to monitor as the UK progresses through this uncharted territory. These areas are higher education; skills supply and demand; and health and safety policy.[5] Transport and warehousing had the worst effects due to the Brexit. Brexit has led to a shortfall of 330,000 people in the UK labor force, mostly in the low-skilled economy, a report by leading researchers has found.[6] The leaving of UK from EU led to an increase in immigration from non-EU countries but that was not up to the point to compensate for the loss of workers that is skilled workers from the neighboring countries.

**Figure 2**

### UK job vacancy rate exceeds EU average

Britain has proportionately more job vacancies than any large EU country



### DISCUSSIONS

The first thing that comes to our minds when we hear the word Brexit is United Kingdom and its relationship with the European Union. On the contrary, European Union has not only been the center stage for Brexit but for so many other countries as it has been one of the largest and powerful economies where it has been a member with a global stronghold or we can say an ally to World Trade Organization (WTO), who is responsible for regulations of international trades between two countries. The EU is a staunch supporter of free trade and is committed to an open, rules-based system of international trade. The EU's trade policy strives to advance the

interests of its member states and to ensure that EU enterprises operate on an even playing field in the international market. The EU also aims to encourage environmental protection, human rights, and sustainable development through its trade policy. The emphasis on regional integration in EU trade policy is one of its main characteristics. Within its borders, the EU has established a single market that permits unrestricted trade in products, services, funding, and individuals. We all know that, recently a few years back, the UK & European Union parted ways with each other when the UK decided to leave the European Union after their deeply rooted and well-established 45 yearlong serving membership for international trade. The balance between national sovereignty

and supranational decision-making was one of the main points of debate. The UK has long been leery of handing over too much influence on Brussels and has worked to keep more of its own affairs under control. When the UK had a referendum on whether to leave the EU in 2016, this tension between the UK and the EU reached a breaking point. A departure deal was negotiated between the UK and the EU in November 2018 after numerous rounds of discussions, and both the EU and UK Parliament subsequently accepted it. The conditions of the UK's exit from the EU were outlined in this agreement, together with the financial settlement, citizen rights, and border arrangements for Northern Ireland. A variety of topics are covered under the trade and cooperation agreement, such as fisheries, law enforcement, and judicial collaboration.

Additionally, it contains clauses on commitments to level playing fields, which aim to ensure fair competition between the UK and the EU, and on governance arrangements, which will oversee the agreement's execution. Overall, over the years, there has been both cooperation and conflict in the UK and EU relationship (Amadeo, 2022). The nature of this partnership has been profoundly altered by the UK's exit from the EU, and the trade and cooperation agreement marks the beginning of a new chapter, also to add along the lines, not just the relationship and the nature of trade has changed but it has touched too many sensitive points of trading goods, different business units which trade internationally under EU, stakeholders, common man and much more if we look into the grand scheme of things. Before Brexit, the single market and customs union laws of the EU governed trade ties between the European Union (EU) and the United Kingdom (UK). As a result, there were no restrictions on the exchange of commodities between the two parties and companies were free to operate internationally.

The EU and the UK were each other's greatest trading partners, with the UK being the EU's top trading partner. In 2019, the UK's overall trade in goods and services with the EU was 47%, while the EU's total trade with the UK was 16%. There were difficulties in the trading relationship between the EU and the UK, nevertheless. One of the key problems was that the EU's intention to preserve a fair playing field for firms within the single market conflicted with the UK's desire to retain more control over its own laws and standards. As a result, there were conflicts over things like state funding, environmental regulations, and food safety. Additionally, the EU and the UK held opposing views on trade policy in general. After Brexit, the UK under Prime Minister Theresa May sought to pursue a more independent trade policy, in contrast to the EU, which was a strong supporter of free trade and multilateralism. This caused some EU member states to worry that the UK would start to compete with them based on tax regulations. Despite these difficulties, the EU and the UK kept cooperating to make sure that their trade relationship ran smoothly.

The UK participated in the development of the EU's trade policy as a member of its trade policy committees. Additionally, the EU and the UK collaborated on trade-related technical issues like origin-related rules of origin and customs procedures.

Overall, the EU and UK's commercial relationship before Brexit was characterized by a combination of collaboration and conflict. Even if there were some basic disparities between the two, their economies were closely connected, and maintaining a close trading connection was in their best interest.

Since Brexit, when the UK left the EU's single market and customs union on January 1, 2021, the trading relationship between the UK and the EU has experienced substantial changes. Following

Brexit, the trade between the UK and the EU is shown in the following statistics:

1. The Office for National Statistics (ONS) reports that compared to December 2020, UK exports of products to the EU decreased by 19.3% in January 2021. Within the same time frame, imports from the EU decreased by 22.1% (Fibre2Fashion, 2023).
2. UK exports to the EU decreased by 18.1% in the first quarter of 2021 compared to the same time in 2020. EU imports decreased by 27.6%.
3. In the first quarter of 2021, the UK's trade deficit with the EU grew and amounted to £17.4 billion which was the highest since the year of 2000.
4. The changes to commerce between the UK and the EU have had a particularly negative impact on the food and beverage industry. The Food and Drink Federation reports that compared to January 2020, food and beverage exports from the UK to the EU decreased by 47% (Fibre2Fashion, 2023).
5. In recent months, trade between the UK and the EU has shown some signs of improvement. In February 2021 compared to January 2021, UK exports to the EU climbed by 8.6%, while EU imports rose by 4.8%.

The COVID-19 outbreak has impacted trade between the UK and the EU, disrupting supply chains and lowering demand for products and services, it is crucial to remember. But according to the statistics, there has been a noticeable impact, especially in the first half of 2021, on trade between the UK and the EU (Fibre2Fashion, 2023).

Major Impacts caused on Goods Trade Sector after Brexit:

- **Tariffs:** Since the UK left the EU's single market and customs union, many items moved between the two organizations are now subject to tariffs. As a result, some commodities now cost

more, and other companies have reduced or stopped doing business with the EU. Businesses have occasionally also incurred increased administrative expenditure as a result of the new regulations.

- **Non-tariff challenges:** Trade between the EU and the UK is currently hampered by non-tariff barriers in addition to tariffs. This involves documentation and customs inspections, which can result in delays and raise costs for firms. New regulatory obstacles like rules of origin requirements and new product standards can also make it more difficult for businesses to conduct business.
- **Trade has decreased** as a result of the addition of tariffs and non-tariff barriers between the EU and the UK. The UK's exports to the EU decreased by 41% in January 2021 compared to January 2020, while imports from the EU decreased by 29%, according to figures from the Office for National Statistics. There are also worries that the reduction in trade may have a longer-term impact because some companies may have invested in new supply networks or switched to suppliers outside of the EU (Fibre2Fashion, 2023).

- **Impacts by industry:** The effects of Brexit on trade have not been felt equally by all industries. The new regulations have had a particularly negative impact on some industries, such the food and beverage sector, with some companies reporting sharp drops in shipments to the EU. Chemicals and pharmaceuticals are two other industries that have fared less poorly.

In general, Brexit has had a considerable influence on the UK-EU trade in products. Some industries have been particularly impacted, and costs have gone up and trade flows have decreased as a result of the introduction of tariffs and non-tariff barriers.

## **RESULTS**

On 1 May 2021 the TCA went fully into force and the Withdrawal Agreement ratified by the EU and UK parliaments allowed the UK to leave and ended the transition period. The Trade and Cooperation Agreement (TCA) allows all products originating from the EU or UK to have access to each other's markets without tariffs or quotas, if they adhere to the rules of origin specified in the agreement. This means that unless goods entering the EU from the UK fulfill the rules of origin, they will be subject to tariffs.

Although the trade agreement safeguards the integrity of EU single Market and might be intended to aid to build EU-UK cooperation, it has several limitations.

- **Higher Costs for Trade:** There is a significant cost reduction due to avoidance of tariffs and quotas, however the need for entry and exit customs might eventually increase the cost of trade.
- **Lack of mobility in the agreement** creates new barriers to movement of the workforce, especially in the service sector, and makes business travel difficult.
- **The grace periods and transitional periods** in several sectors create uncertainty and precariousness.
- **The short time span** between the trade agreement publication and its enforcement gave business little time to adjust and adapt to the new policies.

The impact of Brexit has primarily impacted international trade between EU and UK, and it is evident from the data provided by UK treasury indicates EU-UK trade volume fell sharply.

The impact of Brexit on cross-border trade between the UK and the EU has been significant, with changes to tariffs, customs procedures, and

regulatory alignment affecting businesses on both sides of the border. Here are some of the key results of the impact of Brexit on cross-border trade:

1. **Trade flows have been affected:** UK-EU trade in goods has declined since Brexit, with exports from the UK to the EU falling by 40% in January 2021 compared to the same period in 2020, according to the UK Office for National Statistics. Similarly, EU exports to the UK have also declined, although not as sharply.
2. **Customs procedures have become more complex:** The introduction of customs declarations and other paperwork has increased the administrative burden on businesses, leading to delays and increased costs. Some businesses have also reported difficulties in accessing key markets due to new trade barriers.
3. **Tariffs and non-tariff barriers have been introduced:** The Trade and Cooperation Agreement between the UK and the EU has allowed for tariff-free and quota-free trade in goods, subject to rules of origin requirements. However, some sectors, such as fisheries and financial services, have been subject to new tariffs and non-tariff barriers.
4. **Regulatory divergence has created challenges:** The UK and the EU have diverged in some areas of regulation, such as food safety and product standards. This has led to new barriers to trade, as businesses must now comply with different regulations in each market.
5. **Businesses have had to adapt:** Many businesses have had to adjust their supply chains and operations in response to the new trading environment. Some have relocated to the EU to maintain access to the single market, while others have shifted their focus to non-EU markets.

According to data from the UK Treasury's Office for Budget Responsibility in 2021, there was a

significant decline in the volume of trade in goods between the UK and the EU after the Trade and Cooperation Agreement (TCA) came into effect, and the levels remain lower than they were before Brexit and the pandemic in 2019. In January 2021, there was a 45% drop in UK goods exports to the EU and a 30% drop in imports from the EU, which was even greater than the fall experienced at the start of the pandemic. While global goods trade also experienced a sharp decline at the beginning of the pandemic, it had recovered to 7% below the 2019 average level by August, whereas the total goods trade between the UK and the EU remained down by 15%. Furthermore, the outlook suggests that UK trade has been affected even before the terms of trade with the EU change, possibly due to anticipation effects and uncertainty caused by the UK referendum.

Taking a closer look at the trends in recent times. The fall in trade volume after the transition period ended in 2020 has recovered but remains lower than levels compared to 2019 which was 170 billion in comparison to 158 billion in 2020.

Graph from published study, confirm although the imports from EU to UK fell after transition period, they recovered to pre pandemic levels.

Overall, the impact of Brexit on cross-border trade between the UK and the EU has been significant, with businesses facing new challenges and uncertainties in their trading relationships. The long-term effects of Brexit on trade between the UK and the EU will depend on a variety of factors, including the ongoing implementation of the Trade and Cooperation Agreement and future developments in regulatory alignment.

## **CONCLUSION**

Brexit has been a significant political and economic development with wide-ranging repercussions. One of the major outcomes has been the impact on cross-border trade in Europe and the United

Kingdom. Because of the UK's withdrawal from the EU, commerce between the two areas has changed dramatically, including the imposition of tariffs and other trade restrictions. To maintain trade with EU member states, businesses must adjust to the new trading environment and abide by the new laws and regulations. The hiring of customs brokers and the purchase of new technology to handle the resulting increased paperwork and bureaucracy are just two of the steps that many businesses have already taken to adapt to the new trading environment.

A Brexit support fund, funding for customs intermediaries, and advice and guidance on how to comply with the new laws are just a few of the measures the UK government has announced to help businesses. These steps are necessary to both support businesses as they adapt to the new trading landscape and to maintain cross-border trade as a key component of the UK economy. There are still worries about how Brexit will affect cross-border trade in the long run, despite these precautions. The implementation of tariffs and other trade restrictions may result in higher consumer costs and decreased competitiveness for UK businesses. The effect on the supply chain and the possibility of border delays are additional issues that raise concerns.

Concerns have also been raised regarding how Brexit will affect the overall economy. The UK's exit from the EU may result in less investment and slower economic growth. The effect on employment and living standards may be significant. In order to reduce the impact of Brexit on cross-border trade, it is crucial for the UK government to keep supporting businesses and to cooperate with the EU. The UK government must make sure the new laws are strictly enacted and that businesses have access to the necessary tools to comply. Additionally, it's critical for businesses to keep looking into new markets and broaden



their clientele. By doing so, they will be less dependent on EU members and the effects of Brexit on their business will be lessened.

Overall, Brexit has significantly impacted cross-border trade in Europe and the UK. For companies to carry on doing business with EU member states, it is imperative that they adapt to the new trading environment and follow the new rules and regulations. To assist companies in adjusting to the new trading environment, the UK government must continue to support businesses. Although the long-term effects of Brexit on cross-border trade are still uncertain, it is obvious that they will be substantial. To lessen the effects of Brexit on international trade and make sure that businesses can still access the EU market, the UK government must work closely with the EU. But it is impossible to ignore how Brexit will affect both the UK's relationship with the EU and the future of the EU more broadly. Continually pursuing global trade liberalization requires cooperation between nations in order to facilitate cross-border trade. Despite the difficulties and unpredictable abilities, businesses have the chance to investigate new markets and broaden their clientele.

In the end, how Brexit affects cross-border trade will depend on how well businesses and governments adapt to the new trading environment and how they collaborate to address the difficulties and seize the opportunities brought about by this significant event.

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