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IMPACT OF BREXIT ON THE UK ECONOMIC GROWTH

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Abstract

The economic effects of the Brexit were a famous place of speech in the middle of the Presentation on the enlistment in the United Kingdom of the European Union, and the exchange continues after the vote of the license. There is a powerful passive among market examiners and in the economic literature that Brexit will likely decrease the level of certifiable per capita payment in the UK XXX.

The disciples of the rest, including the treasury of the United Kingdom, struggle because being in the EU has a reliable, productive result in trade and, therefore, UK trade would be increasingly deplorable in case leave the EU XXX. Followers of the EU withdrawal have struggled for the suspension of net taxes to the EU to consider a couple of cuts to evaluations or the increase in routine spending.

The paper also discussed the economic effects of UK departure from EU (Brexit) on the economic growth quantitatively in order to test the reliability of the research. The researcher uses GARSH model to test and measure the relationship of the sterling pound, inflation rate, interest rate and money supply on the British GDP during the period 2006-2018. He concluded that UK'S GDP will be affected significantly by the pound and interest rate change, while it will be insignificantly affected by the others variables. In addition, UK's economy will be worse off after leaving EU.

1.Introduction:

The European Union (EU) will have to reintroduce the tariffs which are charged to non-member states of the European Union. This will lead to an increase in trading costs which will affect businesses negatively. There will be a barrier to trade between EU and UK due to the reintroduction of tariffs and trade barriers.

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The UK government will have to look for trading partners. The government will be tasked with the responsibility of entering into regional trade agreements to enhance trade of the nation. It will also lose a significant amount of tax revenue as many businesses will be closed due to the increase in the cost of doing business in the region.

Many international companies will be closed due to loss of business. The reintroduction of trade tariffs and trade barriers will make it difficult for these companies to operate in the UK thus leading to their closure. These companies will be forced to downsize their staff to survive the decreased business as a result of BREXIT.

Foreign direct investment is vital to improve the economy of the host nation. This investment provides resources, resources, and competencies to the adjacent companies, which commits them to enhance their commercial salary. Through direct foreign investment, capital is placed in associations that allow them to form and form broad associations and organizations. FDI incidentally unites cutting-edge development and mechanical assemblages related to money in the economy that benefits the progression of the XXX host nation's economy. Foreign direct investment leads to a combination of capital that results in an extended commitment salary for the country.

1.1 Entry modes for Foreign Direct Investment (FDI)

Different ways can be used by ecumenical companies (EMN) to make foreign direct investments. Independently, this work revolves around the ways of not estimating that consolidate transportation and approval. These modes are exceptional and extraordinary among themselves. The transport incorporates the exhibition and the direct ideas of the things of the family unit in a foreign market. It does not imply investment in foreign production. The expenses incurred are added to the advance costs. Another way of the section is through approval where an association stipulates that an international company uses its property through trademarks, licenses and old rights (Alvarez et al., 2014, page 580). The global company must pay for the rights to use the slippery property and the following specific benefit that may be necessary.

1.2 Regional Trade Agreements

These are trade arrangements between two or more partnering countries which include free trade agreements and its subsequent customs and policies. In these agreements, member states are required to maintain and enhance transparency to ensure understanding among member states (Brkić and Efendic, 2013). These agreements make up more than half of international trade but operate under the World Trade Organization (WTO).

Foreign buyers get a tremendously large idea of the UK's economic output, while an essential idea of what UK customers and associations buy starts overseas. Market examiners have long struggled for Trade to improve the prospects for regular flights for all countries included. By focusing on inducing those elements and adventures for which each country has a "very favored point of view," all countries through a vast goliath can disperse and, therefore, eat more.

A large number of countries that need to buy from the UK depends on the degree of their economies (that is, the amount they buy through and on a constant basis), and the exorbitant activity and products of the United Kingdom that are granted in concession to those of various suppliers in other parts of the planet. . The reference point will not be affected basically by Brexit, since Brexit is bound to have, at best, a small impact on the economic growth of other countries. * The cost of the product of the United Kingdom and dare buyers in another country is affected by three essential factors passed Main production costs nearby.

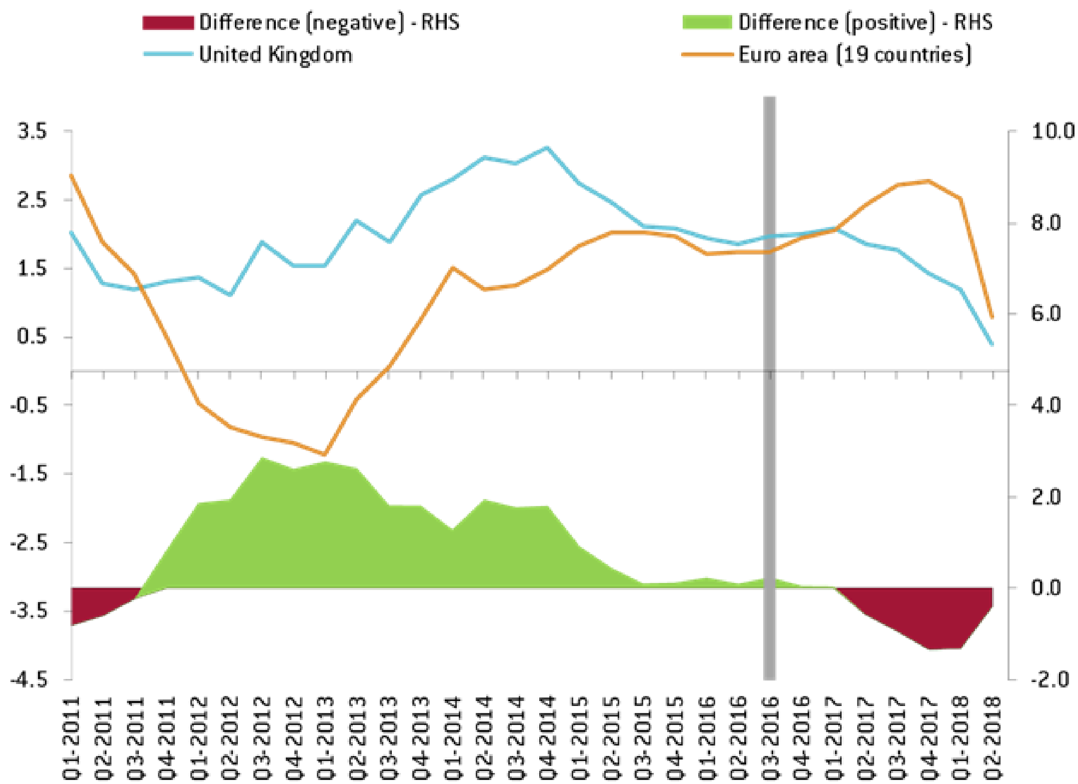

Figure 1: Real Growth Rate

In the beginning, there are transportation costs that can make the cost of trading with countries that are farther away. In general, it is progressively exorbitant to send long-term actions.

Secondly, the demands, that is to say, the positions pressured by the organization of another country on the import of articles of the United Kingdom can be incorporated to the cost of the actions of the United Kingdom bought abroad. There are no charges for items that move between countries within the EU. However, EU forces require imports from some individual countries, as do non-EU countries that import from the EU.

Third, a variety of non-claim limits can be incorporated into the cost of UK products and adventures acquired abroad, and differently. The limits of non-commitment (in the same way that non-demand measures involve) are extended in all practical senses, regardless of what a check is for Commerce, but it is not an expense. A segment of these blocks is related to the routine procedure. This unites essential elements so that things are due to a defined standard, or so that people have solid master skills to have the ability to give to an organization. Others reflect significant differences between countries that impede trade.

Two prominent limits of no demand that are logically twisting inside trade agreements are deterrents and authorized customs controls. The limits of authority are developed as long as the diverse countries (in truth) have particular legitimate rules about prosperity, security and the characteristic reimbursement. Convention controls, which include some other authoritative work required at the edge, for example, work rules in the root work area and customs verbalizations, can cause delays and expenses.

Brexit could affect the element of duties and non-commitment measures that apply to imports into the United Kingdom and admissions from the United Kingdom. These deterrents to trade could increase or decrease, depending on the interpretations between the United Kingdom, the EU, and non-EU countries.

Deterrence factors without commitment between the United Kingdom and the EU could be lower than those faced by other non-EU countries, given that the United Kingdom and the EU start with unclear rules. In any case, depending on the course of the action, there could still be a couple of limits. For example, if the United Kingdom is out of the accumulation of EU traditions, there could always be additional costs for exporters to complete the vital work-life circle, to indicate the rules of origin. The EU offers in a complementary way less access to budget organizations and distinctive markets to associations that are based outside the single market.

Investment is one of the most crucial among the most fundamental drivers of the entire agreement. The advance of national performance (gross domestic product). The private family unit, public investment, and foreign investment can lead to a development in the number and nature of the machines, structures and progressions that teachers have at their disposal, particularly prominent progress and altered competition. After some time, as Commerce checks have been reduced around the world, cross-border investment has grown. Foreign direct investment (FDI) directly contributes to national pay, which gives companies additional advantages to place assets in the effort of their associations. In a complementary way, it can benefit the increase in profitability by giving associations access to phrenic origins from abroad.

On the other hand, the United Kingdom should have better shots that achieve thorough concordances with the moment, and the economies contributed similarly, however, concerning

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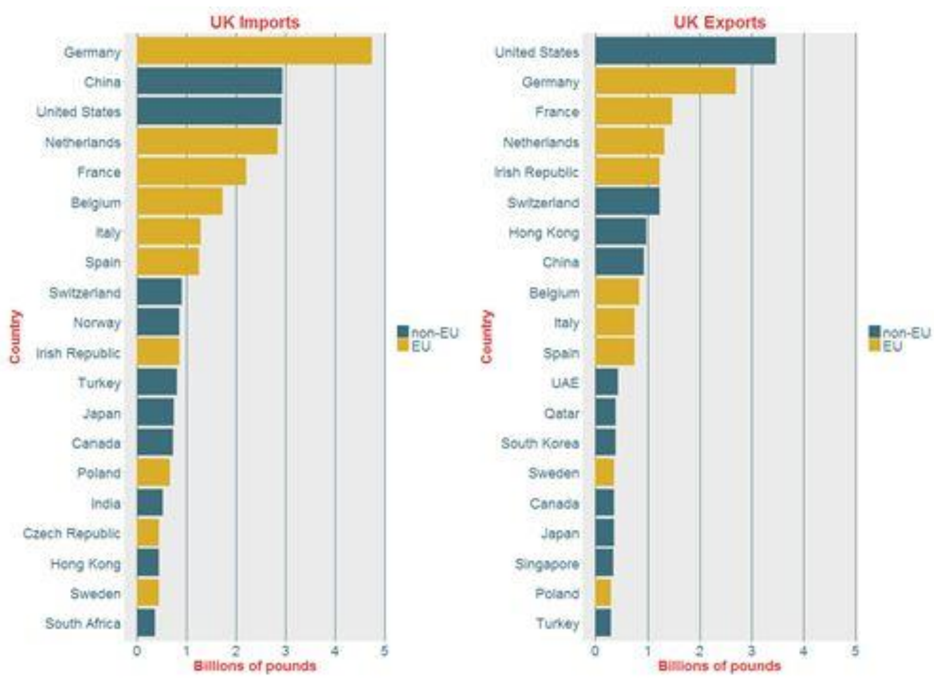
the colossal creations, for example, China and India, should not have so much advantage. The United Kingdom will not have a dime in trade with the EU and other cosmic-induced mass economies for future game plans; In any case, the economic growth of the incited countries is developing at a significantly faster rate than that of the countries caused. potential to reduce impediments to trade with large creative economies in this way possible incipient and useful results

In the table below, the main objectives are recorded outside the EU for transport in the United Kingdom, as well as the main beginnings for imports from the United Kingdom. Germany is the most monstrously titanic carrier in the United Kingdom in February 2016 (£ 4.75 billion) followed by China (£ 2.94 billion) and the United States (£ 2.93 billion). To the extent that tolls, the United Kingdom transported most items to the United States (£ 3.47 billion), followed by Germany (£ 2.70 billion) and France (£ 1.48 billion). In both plots, there is a majority part equipotent between the countries of the EU and the non-EU countries.



It is evident that the objectives with the most notable improvement in the transport of the United Kingdom are immersed in the incentive to the economies. This induces that there may be famous advantages that can be generated by using orchestrating TLC with encouraging economies, solidly in case they have a large number of people. One of the most cosmically massive markets for organizations in the United Kingdom is the United States.

Speaking of understandings of the United States, there is the TTIP of the United States and the European Union. From this support, there is a regular recognition of the things of the EU and the USA. A couple of limits for trade will equal and will be even more basic for trade. For associations in the United Kingdom, it will be a fantastic opportunity to diminish the particular deterrents, and for this after Brexit, the UK could miss this opportunity. It is in the schedule to establish due to the long events included.

In this way, it is fundamental to fight that all the assistants of emergent emerging economies have several advances, and there are particular tendencies among the potential beginner clients. Consequently, to evaluate the volume of Commerce is uncertain, however, has now started a couple of changes between the conditions that I demystified previously.

1.3 Brexit Effect for London

London will have many consequences due to the withdrawal of EU cooperation, some are crucial. There may be a decline in the market for companies, their decline and, in addition, there may be significant problems with commitment limits. Another essential point is that third countries have rules and supervision of their budget areas indistinguishable from those of the EU, and for this, UK companies need to open a branch in the single market country to sell their things and organizations in the EU district. This branch must be limited by specialists from the country where it is based. In addition, supervision and UK standards would be at risk of relentless evaluations.

Fortunately, to organize access for non-member countries, the EU is trying to develop a day-to-day practice across the EU for organizations related to money. The EU could recognize that international regulation is proportional to the corresponding EU structure. The Commission would be decided separately, in the light of an assessment on whether the structure of a third country shows the commensurability of EU frameworks for convincing supervision by professionals, legally limited requirements and a review based on the results of the norm. By the time the structure of the United Kingdom is recognized, companies based in the United Kingdom should face fewer deterrents to Trade, as their organizations and things would later be considered advisable for management purposes in the EU.

The United Kingdom would consider EU supervisors as commensurate to themselves, and EU banks may continue to have branches in the United Kingdom with private ownership; In this sense, the advance may not be detrimental to the associations in the division related to the money of the United Kingdom.

2. Research objectives:

The objectives of this paper are to examine

- The effect of the Brexit on the British economy
- The effect of the Brexit on EU
- UK trade after the Brexit
- UK government reason for Brexit

3. Research questions:

A lot of questions have been asked since the Brexit referendum in 2016, below are the most raised questions:

- What will UK government do to face the outcomes of the Brexit?
- What will happen to public finances?
- What is the future of EU migrant labor after the Brexit?
- What is the divorce bill?

4. Research methodology:

This research was done based on the information from secondary sources like newspapers and websites and articles written on the internet. Most of information was taken from Wikipedia.

The goal of this research is to discuss the effects of Brexit on the British economy. Annual Data regarding UK GDP, Inflation Rate, Interest Rates and Money supply has been obtained from World Bank Development Indicators for the period 2006 – 2018. Whereas, data on Sterling Pound has been extracted from www.poundsterlinglive.com for the same period. GARSH 1.1 has been used to test and evaluate the model.

5. Literature review:

Brexit will for sure affect the British economy as 12.6% of UK's GDP (274 billion pounds in 2017) is linked to exports to EU, which is the destination of 44% of UK's exports. [17]Brexit will have an impact on many sectors in UK like banks for example, and the problem here is the financial passport which gives the right to UK banks to establish branch anywhere in EU without countries imposing additional requirements, but after the Brexit UK banks won't have that right anymore. [13] Also, automobile sector which has a share of 4.9% of UK exports and employs 0.42% of UK's labor, unless UK negotiate a deal with EU there will be tariff of 10% of UK cars exported to EU. .[19] Investment in UK is another sector that will get impact following the Brexit, as 80% of companies in UK either cut or withheld investment and 58% of those companies will relocate production and services as there is nothing clear about the future relationship between UK and EU.[7]. EU institutions like European medicines agency and European banking authority which both are based in London and together employ 1000 British people, these two institutions will relocate to Amsterdam and Paris. [12] Experts expect that UK's economy will be 3.9% smaller than it would have been if UK remained in EU. [11] The immediate decrease of investment by 6% [22]and the British economy income decreased 350 million pounds weekly. [23] All of that are not good signs for UK economy after the Brexit voting.

The Brexit will not only affect Brexit, but also EU. With UK out of EU, EU will lose its second biggest economy and fourth biggest contributor to EU budget, so Brexit will put additional charges on the rest of EU budget contributors unless EU decided to decrease its budget. [23] also UK will no longer be a part of the European investment bank, which UK has a share in of 16% (UK's share amount to be 39.2 billion euros in 2013). [16] For EU countries who trade with UK, will face challenges after the Brexit and that will affect their economy, for example Germany consider UK is the third most important export for German products. Germany exports to UK worth 120 billion euros which is 8% of German exports. After the Brexit there will be a tariff of 9.7% on German automobiles exported to UK. It's important to mention that 750000 jobs in Germany depends on the exports to UK, to add more German investments in UK are amounted to be more than 140 billion euros. [14]

The future trade between UK and EU depends on whether UK will stay in European single market or not. Before the Brexit UK companies used to sell goods freely to customers in EU countries with no taxes required and some goes for EU products in UK. Since 1973 and UK business regulations get along with EU so, maybe after the Brexit, UK will keep those regulations in return to stay in European single market without being a member in EU like Switzerland and Norway. [24] [2]

UK government reasons to justify Brexit is that UK can negotiate free trade deals with other major economies around the world like USA, China and India since UK will be negotiating on its own. UK government stated the Brexit is better for the British economy, as UK will save the money it used to pay for EU budget spend on UK's priorities. Another reason is that UK can make trades with other countries without being under EU restrictions. [3]

As an answer regarding how UK government way to reduce the negative outcomes of the Brexit, after the referendum. The banks of England lowered the interest rate by 0.25% and created 70 billion pounds of new money to encourage commercial banks to lower borrowing costs. [18] In 2018 the growth rate equaled with inflation rate and the employment rate increased very well making the unemployment rate reach 4.2% which is the lowest since 1975. [15] In a way to remove barriers from UK government side, UK's prime minister Theresa May announced that the government will remove application fees for EU nationals who are in UK and want to want to work in the country. [10]

The uncertainty surrounding the public finances can be cleared as UK will save the money it used to pay for EU budget, but however these savings would be erased if the Brexit resulted in a loss for the British GDP. UK will save 280 million pounds weekly. On the other hand, some groups in the UK like universities used to get research grants from EU, but after the Brexit these grants or contributions won't be paid to these universities anymore from EU. [9]

To clear things surrounding EU migrant labor, two thirds of UK firms' employers stated that they will continue to employ EU nationals. A research was done and concluded that number of employers who continued to recruit EU nationals is the same number as the number before Brexit referendum was made in 2016. Employers explained that they choose skilled labor and better for the job regardless of nationality of the labor, [4] but however the prime minister of UK Theresa May said : "EU citizens will no longer be given the priority to live and work in Britain in immigration policy after the Brexit".so UK wont deal with EU migrant labor after the Brexit like before. It's like UK prime minister described it "it ends the free movement once and for all". [1]

To define the divorce bill, it is the sum of money that UK must pay to the EU when UK legally leaves. After being a member for more than 40 years now the divorce is estimated to be 39 billion pounds. As legally named the Brexit financial statement, EU may allow it to be linked with trade agreements. [8]

(Johnson et al., 2010, pg. 1610) mentioned that Multinational Enterprises (MNEs) should analyze the political, economic and cultural environment of their target countries. Business is hugely affected by these factors, and the firm needs to have sufficient information with regards to these factors to make informed decisions. In the UK, there are well-established research firms that advise Multinational Enterprises on areas to invest depending on the environment. These firms provide vital information that assists foreign companies in making informed decisions that will lead to the success of the firm in the United Kingdom. The currency of UK is expected to improve in the long-term even though it will lose value in the short run due to decline in business in the country Many domestic companies and international companies operating in the country will be shut down due to an increase in operational costs thus leading to a rise in unemployment.

(Cherchye and Verriest, 2016, pg. 840) pointed out that the success and profitability of the host county are affected by various elements in the host country such as political instability, economic performance and the nature of technology in the host country. In the UK, the political and financial performance of the country has a significant impact on corporate profitability of Multinational Enterprises. For instance, UK withdrawal from BREXIT had a severe impact on businesses since trade tariffs previously enjoyed by these companies were ratified thus consuming a particular share of their profits

(Schmidt, 2009, pg. 20) discussed the Absorptive capacity is the ability of a firm to recognize and incorporate new information into its production. Firms need to be innovative in their operation and performance to contribute to organizational learning. This is only possible when these firms develop absorptive capacity. According to the knowledge provided by spillover theory, businesses and entrepreneurs play a vital role in a country's economy as such, companies need to recognize and understand the importance of new information in improving their overall performance.

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(Yamko, 2009, pg. 150) emphasized that BREXIT has had and is expected to have more effects on the United Kingdom. The UK government will lose a considerable amount of international trade by withdrawing from the European Union since that move breaks more trade agreements. UK citizens have also not been left behind. The UK had implemented many social rights which were ratified by withdrawing from the economic bloc. UK citizens enjoyed many social rights as a result of their country's membership to the European Union). However, with BREXIT some of these rights will be lost as they were only effective with UK membership to the European Union (EU).

6. Model variables:

It measures the relationship GDP, inflation rate, the pound exchange rate and money supply using regression test.

Dependent variable:

- GDP

Independent variables:

- Pound exchange rate (U.S dollars per pound)
- Inflation rate
- Interest rate
- Money supply

7. Hypothesis:

Hypothesis 1

- H0: inflation rate affect GDP.
- H1: inflation rate doesn't affect GDP.

Hypothesis 2

- H0: interest rate affect GDP.
- H1: interest rate doesn't affect GDP.

Hypothesis 3

- H0: money supply affect GDP.
- H1: money supply affect GDP.

Hypothesis 4

- H0: Pound exchange rate affect GDP
- H1: pound exchange rate doesn't affect GDP.

10% was used as the level of significance in this model.

Variable	Coefficient	Std. Error	z-Statistic	Prob.
INF	-3.00E+10	4.70E+10	-0.638241	0.5233
IR	-1.21E+11	7.11E+10	-1.705826	0.0880
MS	557.7798	449.0703	1.242077	0.2142
POUND_EX	1.08E+12	3.93E+11	2.735924	0.0062
C	6.54E+11	1.10E+12	0.595818	0.5513
R-squared	0.599572			

In hypothesis 1, we reject H0 and accept H1 because p value for inflation rate is 52%, so the inflation rate is insignificant variable.

In hypothesis 2, we reject H1 and accept H0, because p value for interest rate is 8.8%, so the interest rate, so the interest rate is significant variable.

In hypothesis 3, we reject H0 and accept H1 because p value for money supply is 21%, so the money supply is insignificant variable.

In hypothesis 4, we reject H1 and accept H0, because p value for pound exchange rate is 0.6%, so the pound exchange rate is significant variable.

The R square is 59.9% which means inflation rate, interest rate, money supply and pound exchange rate affect 59.9% of change in GDP

7. Conclusion:

It is obvious that Brexit is not a wise move for the British economy, as it will result to put a lot of obstacles in the way between the UK and the biggest trading partner of the UK which is the EU,

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so after the Brexit the whole relationship will be changed, and the British economy won't be as good as it would be if the UK remained in the EU. In addition, it is hard to say that UK government can make trade deals smoothly like those which it had as an EU member. Furthermore, there will be some restrictions on UK citizens who work in EU countries, because they will be from a country who is not a member of the EU, so they won't move freely like before.

The withdrawal of the United Kingdom from the European Union has had significant implications for companies in the country in terms of trade. UK citizens feel these effects in terms of living standards. The impact in the United Kingdom is attributed to an increase in costs associated with undertaking business between the UK and EU. The withdrawal of UK has a potential of increasing custom formalities through the reintroduction of customs controls (Nasir and Simpson, 2017). The withdrawal will also reintroduce the trade barriers that were previously removed by the economic bloc.

• The economic analysis shows that the United Kingdom will be increasingly horrible economically outside the EU in most of the possible circumstances. The critical request for the United Kingdom is the scariest amount that will be after the Brexit.

• The United Kingdom's dissatisfaction with achieving open trade and investment with the post-Brexit EU would have negative repercussions for the United Kingdom and the EU and will grant nothing, without proposing anything, to the US.

• Leaving the EU without a game plan and applying the principles of the World Trade Organization (WTO) would cause the most significant economic losses for the United Kingdom. The examination of this precise circumstance shows that trade according to the WTO precepts would decrease the future gross domestic product by around five percent ten years after Brexit, or $ 140 billion, differentiated and enlisted in the EU.

• The outcome of the WTO for all purposes would undoubtedly move the United Kingdom far from EU controls and would result in basically extended rules of non-requirement, undermining the limit of UK associations to launch organizations to countries of the EU. The organizations' section, including organizations related to money, controls the economy of the United Kingdom and incorporates approximately 80 percent of its gross domestic product.

• In the framework of the dealings with the WTO, the EU would lose similarly to an economically, but in no case close to a homogenous degree such as the United Kingdom. The financial loss for the EU could be about 0.7 percent of its overall gross domestic product ten years after Brexit.

• The other seven trading scenarios would be incredibly better for the UK in relation to WTO rules; however, most even now would result in economic losses in their current status as part of the EU.

• Of all the circumstances analyzed, the one that would have the most favorable position would be a trilateral vision between the United Kingdom, the European Union, and the United States, basically an understanding similar to that of the TTIP. The UK would have 7.1 rate ratios for the Gross Domestic Product better than any circumstance of the WTO rules, which is even better than anything else that continues with EU cooperation. This is because the United Kingdom would increase single access to both commercial EE approaches. Like those of the EU and would benefit from its higher economic growth attributed to a TTIP. In any case, a game plan similar to TTIP is seen as in all respectful feelings unfeasible in the current political condition.

• None of the circumstances of the 'soft Brexit' would be as benevolent to the United Kingdom as the trilateral agreement UK-EU-EE. The three circumstances will presumably cause unpretentious fiscal setbacks for the UK economy compared to the current EU support agreement.

• After Brexit, the political and security effects would be the most fundamental for the United States. The possible economic benefits and setbacks for the US in Brexit they are scarce, separated from the game plan similar to the TTIP, which would result in significant economic gains for the US. USA the effect and the ecumenical point of view that the United Kingdom passes on to the EU's crucial initiative procedure will be lost, particularly in relation to foreign policy, security and obstacles.

• The EU is likely to partner with the United Kingdom during the Brexit negotiations but may see advantages in accepting a 'riddle' approach. The primary political need in Europe is to discourage other parts of the states.

• It will be essential for the United Kingdom to test the ways of dealing with a movement away from a 'riddle' and towards an 'absolute-positive royalty' as sustained courses of action, to ensure the best plan for all assemblies. A UK strategy to try to dismantle European solidarity is presumably not to get to work since it is in the best favorable position of all EU states to collaborate.

• In general, it is in the best favorable position of the United Kingdom and, to a lesser degree, of the EU, to participate in achieving a kind of open trade and investment relationship after Brexit. The separate "course of action / WTO rules" separately would be economic damage for the two meetings.

Alternatives--determine alternative solutions to the problem(s)

1. Leaving the EU could affect the charm of the United Kingdom to foreign investors. There is no reason below which FDI in the UK has been strengthened by being a person from the EU and, therefore, Brexit could be reduced in this way.
2. The free advancement of capital, one of the 'four open doors' fundamental for the EU Single Market, has made it easier for the monetary masters of other states that are part of the EU to place assets in the United Kingdom.

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3. Being in the EU's single market makes the United Kingdom an attractive toll for multinationals. They can misuse the UK's commonly compromised business condition, while also having the ability to recognize Trade without friction with the rest of the EU.
4. Working from an EU country is particularly enchanting for significant ecumenical partnerships that have amazing supply chains or helper frames in various countries within the alliance. The EU Single Market, which includes not very important rules and the ability to move personnel directly between countries, reduces the coordination costs for this type of associations.

Conclusion--identify the best solution.

Free Trade Agreements that the UK is involved in The United Kingdom has a strong network of trade relations with both European and non-European countries. It is mainly interested in open markets that comply with the World Trade Organization rules and regulations (Worthy, 2017). United Kingdom practices free trade agreement with the European Free Trade Association (EFTA) and is also a member of the World Trade Organization (WTO). Before Brexit, UK was also a member of the European Union (EU).

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