

Analysis of Reasons and Impacts of Brexit

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Abstract. Brexit represents a pivotal moment in the history of European integration. This paper provides a systematic analysis of its political, economic, and social drivers, as well as its multi-faceted consequences. Politically, profound British skepticism regarding the transfer of sovereignty to the EU and disputes over refugee policies served as immediate catalysts. Economically, discontent with EU budget contributions and the pursuit of greater trade autonomy were central demands. Socially, the historical tradition of "splendid isolation" and a weak European identity formed the public opinion foundation. In terms of impacts, Brexit has not only challenged London's status as a global financial hub and introduced new barriers to UK-EU trade but also risks intensifying regional divisions within the UK. For the EU, its international stature, the image of integration, and budgetary capacity have been significantly weakened, potentially steering the bloc towards more conservative trade policies. Globally, Brexit triggered short-term market volatility and introduced long-term uncertainties for the future global trade landscape and governance system.

Keywords: Brexit, Driver Analysis, Political and Economic Impacts, EU Integration.

1. Introduction

Before and after the end of World War II, Britain keenly felt its national strength declining. Therefore, on one hand, it sought to establish a special relationship with the United States, and on the other hand, by leveraging European integration to maintain its status as a major power, Britain hoped to participate in European integration cooperation in the form of intergovernmental collaboration while maintaining its uniqueness. Britain aimed to promote EU reform with the ideology of free trade liberalism, but this effort seemed to face significant challenges in the larger political and economic environment of the EU, leading to difficulties and entanglements. The Brexit referendum on June 23, 2016: 51.9% (15.7 million people) voted in favor of Brexit, while 48.1% (14.58 million people) voted to remain in the EU. Eventually, on January 31, 2020, the UK officially left the EU and became an "independent country." In the Brexit agreement, both sides agreed to a transition period, during which the UK will continue to abide by EU regulations until December 31, 2020. However, the UK still needs to renegotiate a trade agreement with the EU to ensure future economic cooperation. Furthermore, Brexit has had a certain impact on the UK economy and financial markets. In the short term, Brexit led to investment uncertainty and market fluctuations. However, in the long term, Brexit may provide the UK with more economic autonomy and opportunities, such as engaging in freer trade agreements with other countries around the world. The historic event of Brexit represents a profound transformation in British politics, economy, and social structure, and it is a major turning point in European history.

1.1. The establishment of the European Union

On April 18, 1951, France, the Federal Republic of Germany, Italy, the Netherlands, Belgium, and Luxembourg signed the Treaty establishing the European Coal and Steel Community in Paris. On March 25, 1957, the six countries signed the Treaties of Rome in Rome, establishing the European Economic Community and the European Atomic Energy Community, collectively known as the "Treaties of Rome." On April 8, 1965, the six countries signed the Brussels Treaty, deciding to merge the institutions of the three communities into a single entity called the European Communities. However, the three organizations continued to exist separately with independent legal personality.

The Brussels Treaty came into effect on July 1, 1967, officially establishing the European Communities.

After 1973, the United Kingdom, Denmark, Ireland, Greece, Spain, and Portugal successively joined the European Communities, expanding the membership to 12 countries. The twelve EC countries established a customs union, unified foreign trade policy and agricultural policy, created the European Monetary System, established a unified budget, political cooperation system, gradually developing into a spokesman for the economic and political interests of European countries.

On December 11, 1991, the Maastricht Summit of the European Communities adopted the Treaty on European Union aimed at establishing the European Economic and Monetary Union and the European Political Union. The “Maastricht Treaty” entered into force on November 1, 1993, establishing the European Union, marking the transition from an economic entity to an economic-political entity. In 1995, Austria, Sweden, and Finland joined the EU, expanding the EU membership to 15 countries. On November 18, 2002, the Foreign Ministers of the EU-15 decided to invite ten Central and Eastern European countries, including Cyprus, Hungary, Czech Republic, Estonia, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia, to join the EU. This was the largest expansion of the European Communities since its establishment. May 1, 2004, marked the official accession of the ten new Central and Eastern European members to the EU, increasing the EU’s membership from 15 to 25 countries.

1.2. The process of the UK joining the European Union

After World War II, although Britain had won the war, life became even more difficult than before. The war consumed a quarter of the national wealth, and external debt alone reached £3.4 billion. In addition, many colonies were seeking independence. A high-welfare political framework was established domestically, and the government's fiscal deficit was very serious. Britain had to seek new economic support from Europe. Furthermore, the United States was also pushing for Britain to enter Europe to strengthen its own influence in Europe. In this situation, the proud British Empire had to face reality and slowly shift its diplomatic focus from the global stage back to Europe, beginning a bumpy journey of applying to join the circle of European friends. The first attempt by the UK to join the European Union was in 1961, when the European Economic Community and the European Atomic Energy Community were established. However, the UK's initial application to join the European Economic Community was rejected. On one hand, the UK was unwilling to give up its economic ties with the Commonwealth, and on the other hand, France was wary of the special relationship between the UK and the US impacting its own position. In 1967, the European Coal and Steel Community, the European Atomic Energy Community, and the European Economic Community merged to form the European Communities, and the momentum of economic development improved. Subsequently, the UK mustered the courage to reapply. The external links between the UK and the Commonwealth further weakened, with former colonies having their own interests to consider after gaining independence. Additionally, at that time, the UK-US relationship underwent subtle changes following the Vietnam War. The UK made a firm decision to join the European Communities. Prime Minister Wilson not only conducted exploratory visits to the six European Community countries but also sought opportunities for a private meeting with de Gaulle, making every effort to lay the groundwork. However, despite the UK's repeated overtures, France remained unmoved. France was concerned that the UK's laissez-faire habits would disrupt European integration. In the 1970s, the international US dollar crisis began to erupt, leaving the United States preoccupied. In this context, the UK had to abandon its fantasies about the US. The UK made its first statement indicating willingness to join hands with other Western European countries to establish a “Europe of Europeans.” At this time, France hoped to use the UK to restrain the rapidly developing West Germany, so France finally nodded in agreement to the UK's accession. On January 1, 1973, the UK joined the European Communities.

2. Analysis of the Reasons for Brexit

2.1. Political reasons

Due to historical and geographical reasons, since the late 19th century, Britain has pursued a policy of non-intervention in European affairs, also known as “splendid isolation”. Britain is not a member of the eurozone and can issue its own independent currency, which is beneficial for maintaining export competitiveness and having independent fiscal policies. However, this also makes it difficult for Britain to truly engage in dealing with European affairs, and suspicions and mistrust between Britain and the EU have always existed. The Conservative Party believes that internal policies of the EU have negative effects on the EU and may also harm British interests in the future. Especially after experiencing various conflicts of interest during the Eurozone crisis, Britain is gradually losing its position and participation in the EU.

In addition, Britain is dissatisfied with the EU’s refugee policy, which is also a direct reason why the British people support Brexit. After the accession of Eastern European countries to the EU, there has been free flow of population and economy, and a large number of immigrants from Eastern Europe have become a problem that British society cannot avoid in the new century. Most of these Eastern European immigrants are low-end labor force who are taking up the largest job opportunities in Britain. Therefore, a large number of lower-class British people do not want immigrants to be introduced.

Of course, there are also some external factors, mainly from the United States. The United States does not want to see a united and powerful European Union moving towards deeper cooperation. Therefore, the United States always takes some actions, either overt or covert, to sow discord within the EU, and Britain is the weakest link in this regard.

2.2. Economic reasons

In the late 1960s, the economies of Japan, Germany, and France surpassed that of the United Kingdom. Britain’s economy relatively declined, and its influence in international affairs weakened. Consequently, in the late 1970s, Britain turned its attention to Europe and applied to join the European Community.

The first industrial revolution had the most significant impact on Britain’s manufacturing sector, earning it the title of the “workshop of the world.” However, subsequent technological revolutions gradually reduced the proportion of manufacturing output and employment in the gross domestic product (GDP) of advanced economies worldwide, while industries such as services saw a steady increase. The decline in the manufacturing output of Britain has been much faster than that of other countries, leading to a continuous decrease in its share of global manufacturing output.

Additionally, the discovery of North Sea oil accelerated the decline of Britain’s manufacturing sector. The petrocurrency resulting from North Sea oil discovery caused the British pound to appreciate, rendering many British exports less competitive. This exacerbated the recession in the early 1980s.

2.3. Social reasons

The sentiment for Brexit in the UK has deep historical roots. This is related to the UK's historical sentiment. For a long time, the UK has possessed the characteristics of being an island nation separated from the European continent and has had an imperial complex. It once controlled colonies equivalent to 50 times its own territory with a military force of 250,000, and held world hegemony for 200 years through the gold standard. The British Empire could control the world but could never dominate the European continent. After joining the European Union, the UK felt constrained and restrained by countries like France and Germany in both political and economic fields, gradually feeling marginalized and excluded. At the same time, the British people have always maintained a strong sense of sovereignty and imperial national superiority. They hold a skeptical and watchful attitude towards Brexit. Throughout European history, there has always been a lack of true cultural

integration and identification. Most Europeans still prioritize their national identity over their European identity, with only a very small number considering themselves European. There is skepticism about a European identity within Europe, yet European identity is an indispensable social and cultural foundation for consolidating and developing European political and economic integration. During EU international conferences, member states do not use English as the common language. Instead, more than 20 languages serve as the medium of communication, with interpreters outnumbering participants. Europe is a melting pot of diverse cultures, consciously maintaining multicultural coexistence. However, it is often overlooked that cultural diversity can become a deep-seated cultural constraint on the European community, directly leading to political and economic discord.

3. Impacts of Brexit

3.1. Impacts of Brexit on the UK

Brexit has brought huge costs to the UK economically. In addition to the significant short-term fluctuations in the pound exchange rate, the medium to long-term impacts includes the following aspects:

3.1.1. The status of London as a financial center will face challenges.

London is one of the leading financial centers in Europe and the world, playing an important role in international financial markets such as foreign exchange and securities trading, maritime and aviation insurance, bond insurance and trading, and interbank lending. Meanwhile, under the current EU financial regulatory system, banking institutions located in London can sell financial products and services to customers in all EU member states without discrimination, with annual turnover reaching £20 billion, generating a financial services surplus of £16 billion for the EU. In contrast, although Switzerland, a non-EU member state, has established a European Free Trade Association with the EU, its financial institutions cannot directly sell financial products and services to EU member states and must establish subsidiaries within the EU. After Brexit, some foreign-funded banks may have to establish subsidiaries or branches in other EU member states.

3.1.2. Brexit will impact the import and export trade of the UK.

The EU is the largest destination for UK exports and the largest source of imports. UK exports to other EU countries account for 44% of total UK exports, while imports from other EU countries account for 54% of total UK imports. Brexit will expose nearly half of the UK's import and export trade to new barriers and risks. According to OECD estimates, if the UK and the EU re-establish World Trade Organization's most favored nation rules after Brexit, total UK exports will still decrease by 8.1%, exports to the EU will decrease by 5.8%, and imports from the EU will decrease by 9.4%. If a free trade agreement is established between the UK and the EU, total UK exports will decrease by 6.4%, exports to the EU will decrease by 3.1%, and imports from the EU will decrease by 6.3% compared to the current situation.

3.1.3. Brexit will weigh down UK economic growth.

A research report published by the International Monetary Fund (IMF) in June shows that if the UK chooses to remain in the EU, the UK's economic growth rate is expected to be 1.9% and 2.2% respectively in the next two years; if the UK leaves the EU, under a less severe impact, the economic growth rate is expected to be 1.7% and 1.4% respectively in the next two years, while in an extreme situation, this year's growth rate is only expected to be 1.1%, and next year's growth rate is predicted to drop to -0.8%. The Organization for Economic Co-operation and Development's (OECD) Global Economic Outlook also argues that after Brexit, the UK's gross domestic product (GDP) will lose 0.5 percentage points annually from 2016 to 2018, and by 2020, the UK's GDP will be 3% lower than it would have been had Brexit not occurred.

3.1.4. The economic landscape of the UK may gradually shrink.

From the results of this Brexit referendum, it appears that there is a stronger sentiment for Brexit in England and Wales, while the majority of people in Scotland and Northern Ireland are inclined to remain in the EU. The referendum results may further exacerbate the already sensitive regional conflicts within the UK and widen divisions. If this leads to Scotland and Northern Ireland holding independence referendums and succeeding, it will not only significantly impact the UK politically but also deal a huge blow to the UK economically. A smaller map of the UK not only signifies a smaller economic output and a more homogeneous economic structure but also indicates weaker risk-bearing capacity, leading to greater economic volatility in the future.

3.2. Impacts of Brexit on the European Union

Brexit is not entirely a bad thing for the European Union. Britain has always defined itself as a global power outside of Europe, with a relatively passive attitude towards promoting European integration. After Brexit, the decision-making efficiency of the EU is likely to improve. However, compared to the positive impacts mentioned above, the negative impacts that the EU will bear from Brexit may be even greater.

3.2.1. From an economic perspective, driving the European Union towards conservatism and closure.

Economically, the UK has always been seen as a representative of the “economic liberalism camp” within the EU, to some extent balancing the high centralization of power in Germany and France, ideological discrimination, and trade protectionism from some “new Europe” members. After Brexit, the dominant influence of Germany and France within the EU will further strengthen, while receiving encouragement from certain Central and Eastern European countries, the EU’s economic and trade policies may lean towards conservatism. Particularly against the backdrop of slow global economic recovery, the EU is likely to slide towards trade protectionism.

3.2.2. Politically weakening the international status and influence of the EU.

After Brexit, there will be only one permanent member of the United Nations Security Council left within the EU-France. The Western world will shift from the roughly symmetrical transatlantic bilateral relations of the past to a “one strong, two weak” triangular relationship between the US, UK, and EU. As the world’s only superpower, the US can flexibly choose cooperation partners between the UK and EU according to its strategic needs, leading to a weakened international status and both soft and hard power of the EU, reducing its ability to play a role in global governance issues such as international politics, economics, security, etc.

3.2.3. The image of EU integration will be impacted.

The EU was once recognized internationally as the most successful regional integration organization, but in recent years, faced with a series of challenges such as the subprime crisis, European sovereign debt crisis, Greek debt default, refugee crisis, terrorism threats, etc., EU member states have been unable to coordinate positions due to the need to protect their own interests, making it difficult to pull together in the same direction. The UK’s decision to leave the EU is like the last straw, indicating that the political and economic cooperation mechanism established by major European countries after World War II is facing unprecedented challenges, and the EU’s process of political and economic integration also faces significant tests.

3.2.4. The budgetary capacity of the EU will be significantly constrained.

After Brexit, the EU will no longer bear the obligation to pay membership fees to the EU, leading to a possible 10%-15% budget gap in the EU, which will trigger a series of serious consequences. Firstly, the expansion speed of the EU will significantly slow down. Since the end of the Cold War, the EU has absorbed many Central, Eastern, and Southern European countries as new members, expanding its membership to 28 countries. To bridge the gap between member states, Western and

Northern European countries such as Germany, France, and the UK have shouldered the economic “blood transfusion” obligation. With the departure of the UK, the EU is currently unable to continue expanding in the short term, and the process of candidate countries like Albania and Serbia joining the EU may slow down; secondly, the Eurozone crisis may reignite. During the previous Eurozone crisis, the EU, IMF, and the European Central Bank jointly provided €240 billion in rescue funds for Greece. Brexit will to some extent weaken the EU’s capacity to provide large-scale assistance to member states again; thirdly, other net contributor countries will be forced to share the UK’s contribution amount, which may further provoke domestic discontent and new political turmoil.

3.3. Impacts of Brexit on the World Economy

In the short term, the Fed’s interest rate hike process and the currency policies and exchange rate policies of various countries may all be affected to some extent. For major global economies such as the Eurozone, China, and Japan, their currency policies will also be affected and forced to make corresponding adjustments. In addition, Brexit will lead to misalignment of exchange rate policies across nations.

In the long term, Brexit will bring about transfer effects across the globe of trade. EU countries with close trade and investment ties with the UK, such as Ireland, Cyprus, Malta, the Netherlands and Belgium, may experience significant fluctuations in imports and exports; non-EU countries such as China, South Korea, Russia, Turkey, and others may benefit from Brexit; strengthening the economic integration with other Commonwealth countries may also benefit many Commonwealth countries as an alternative policy after Brexit; however, Brexit may affect the Transatlantic Trade and Investment Partnership (TTIP) negotiations that the US is actively promoting. As the relationship between the UK and the EU remains uncertain in the short term, the US is likely to postpone or extend the TTIP negotiations.

From the perspective of economic globalization, Brexit, although causing disruptions to European integration, is to some extent beneficial for globalization. Since the 1990s, regional integration has been vigorously developed worldwide. Research shows that regionalization cannot simply be understood as a stage product of globalization, nor does it necessarily promote globalization; overemphasis on regional interests and excessive closure may hinder globalization, leading to more frequent, larger-scale, more difficult to coordinate and resolve conflicts among regions, regions and countries. For example, in recent years, the EU and other countries and regions have had frequent conflicts over issues such as greenhouse gas emissions reduction, steel anti-dumping, and agricultural trade. After being released from the decision constraints of leaving the EU, returning to the tradition of free trade and pragmatism, the UK may become an important force supporting globalization and play a more active role in promoting reform of the world trading system and financial system.

4. Summary

Brexit has had far-reaching impacts on the political, economic, and social fields. The economic problems brought about by Brexit require joint efforts from all parties, with important roles to be played by the government, businesses, international organizations, and the public. Only when all parties take active and reasonable measures and form a multi-party partnership, it will be possible to effectively address the economic problems caused by Brexit and promote economic stability and sustainable development.

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