

An Analytical Study of Brexit as a Turning Point in the UK's Economic Policies in the European Region

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Abstract: Brexit, a major event in the 21st-century international political and economic arena, has transformed the UK-EU relationship and significantly influenced the UK's domestic economic policies. This study aims to analyze the specific effects of Brexit on the UK's economic policies and how these policy changes affect its economic performance. A combination of quantitative and qualitative methods is employed. Economic data, policy documents, and academic articles before and after Brexit are analyzed to assess the direct and long-term impacts on trade, financial markets, and macro-economic policies. This research finds that Brexit led to major adjustments in the UK's trade policy, with increased trade costs due to losing access to the EU single market. The financial sector also faced challenges to London's status. Domestic economic needs, changes in the European economic landscape, and the global economic environment contributed to these policy changes. Brexit brought both challenges and opportunities, and the UK needs to make prudent policy decisions to enhance economic resilience and competitiveness.

Keywords: Brexit, UK economic policies, European economic landscape, Global economic environment

1. Introduction

Brexit, namely the United Kingdom's withdrawal from the European Union, is one of the major events in the international political and economic arena in the 21st century. This decision has not only altered the relationship between the UK and the EU but also had a profound impact on the UK's domestic economic policies. Brexit enables the UK to re-formulate its trade, financial, and immigration policies. However, it also has to face a series of challenges such as renegotiating trade agreements with the EU and other countries and increased economic uncertainty. Therefore, exploring the impact of Brexit on the UK's economic policies is of great significance for understanding the future economic development direction of the UK and the changes in the global economic landscape.

The main objective of this research is to analyze the specific impact of Brexit on the UK's economic policies and how these policy changes affect the UK's economic performance. The research will adopt a combination of quantitative and qualitative methods. By analyzing economic data, policy documents, and relevant academic articles before and after Brexit, it will assess the direct and potential long-term impacts of Brexit on the UK's trade policies, financial markets, and macroeconomic policies.

The significance of this research lies in that through in-depth analysis of the economic policy changes brought about by Brexit, it can provide a valuable reference for policymakers and relevant

stakeholders. This helps to formulate more effective coping strategies to deal with various economic challenges brought about by Brexit. At the same time, this research will also explore the change in the UK's position in the global economy and how it adjusts its self-positioning to adapt to the new international economic environment.

2. Britain Economic Policies in European Regions

2.1. UK's European Economic Policies Before Brexit

2.1.1. Trade Policy

Since joining the European Community in 1973, the UK has actively promoted free trade and opened up the EU. The UK is representative of the modern market economy model, which differs from the economic models of other countries in the EU, such as the social market economy model of Germany and the executive-oriented model of France. This difference leads to the unsmooth development of UK-EU economic and trade relations.

The UK supports a free trade policy within the EU and wants to achieve a greater degree of market openness and a strict competition policy. The UK believes that the EU's regulatory system restricts its economic and trade relations with countries outside the EU, and therefore hopes to regain autonomy in economic and social rules through "Brexit" [1].

2.1.2. Financial Cooperation Policy

As a global financial center, the UK is an active advocate of opening up the financial sector and reforming financial regulatory policies within the EU. The UK advocates a single financial market within the EU that promotes the free movement and cooperation of financial services.

Within the EU, the UK is an active advocate of opening up the financial sector and reforming financial regulatory policies, and its propositions have played a positive role in enhancing the vitality of the EU financial sector [2].

2.2. UK's European Economic Policies After Brexit

2.2.1. Formulation and Implementation of New Trade Agreements

After Brexit, the trade relationship between the UK and the EU will need to be renegotiated. On 24 December 2020, the UK and the EU finally generated a trade agreement, which is 2,000 pages long and covers a wide range of areas, including trade in goods, trade in services, fisheries, energy, aviation and civil nuclear cooperation. This agreement allows for tariff-free and quota-free trade in goods between the two sides in the future, but arrangements for services are still not covered. Trade negotiations between the UK and the EU have been complex, with significant differences in the type of trade, regulatory coherence, fishing rights, access to financial markets, and dispute settlement mechanisms. Since 2022, there has been great uncertainty about whether the two sides can reach a relevant trade agreement within the year. While both the UK and the EU would prefer a deal to avoid the risk of a no-deal Brexit, divergent interests and internal pressures limit the scope for compromise between each other, making it more difficult to reach an agreement.

2.2.2. Independence in the Financial Sector

The challenges facing the UK financial sector after Brexit include the loss of absolute access to EU markets, which could negatively impact London's position as an international financial center. According to a report by think tank *New Finance*, 275 financial institutions in the UK have moved

some of their operations to EU countries in response to post-Brexit market changes [3]. In addition, the European Central Bank has planned to shift euro clearing business from London to the eurozone, although this plan has not been implemented because of the violation of the "four free movements" principle, but the trend of British financial companies to move to continental Europe suggests that the future trade in financial services between the UK and continental Europe may not be "barrier-free". The UK Government is working to enhance the competitiveness of the financial sector through policy and strategy changes, particularly in attracting global talent and expanding the capacity of financial markets. However, the UK financial sector will not be able to continue to have free access to the big EU market after Brexit, which will deal a blow to its financial influence, tax revenues and exports.

2.2.3. Financial Supervision Reform

After Brexit, the UK financial regulatory system has undergone significant changes. In 2012, the *Financial Services Act 2012* split the Financial Services Authority (FSA) into the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), with responsibility for scrupulous regulation and macroprudential regulation, respectively.

In addition, UK financial regulators have taken a hawkish stance in favor of differentiation from EU financial regulation, emphasizing the need to maintain regulatory autonomy and flexibility after Brexit.

After Brexit, financial institutions lose their "passport" to the EU single market, which means that UK financial institutions' access to the EU market is restricted.

In response to this change, the UK government has worked to maintain London's position as an international financial centre by developing new regulations and policies, while streamlining access to the UK market for non-EU financial institutions.

Furthermore, the UK first proposed a "regulatory sandbox" system to provide a more flexible regulatory environment for fintech companies by setting up a "safe space". This system allows firms to test new products and services before they are subject to strict regulation, thus promoting financial innovation [4].

3. Analysis of Brexit as a Turning Point in the UK's Economic Policies in the European Region

3.1. The Impact of Brexit on the UK's European Economic Policies

3.1.1. A Shift in Trade Policy

After Brexit, Britain's trade policy faces a major adjustment. The UK has lost access to the EU's single market, resulting in additional tariff and non-tariff barriers to trade with other EU countries. This change has significantly increased the cost of trade in the UK and affected market competition.

After Brexit, the UK's foreign trade has been significantly affected, especially with the EU. The UK and the EU are each other's important trading partners. Before Brexit, 50% of the UK's exports went to the EU, while only 10% of EU exports went to the UK. After Brexit, trade between the two sides has lost the protection of the agreement, and the renegotiation of the bilateral free trade agreement will face many challenges and uncertainties. The UK's diminished influence in the EU market, particularly in terms of trade in services, is a significant loss to the UK economy, as fully free trade in services could add 7% to UK GDP.

3.1.2. A Shift in Financial Policy

Brexit has had a significant impact on UK financial policy, with London's position as an international financial center facing challenges in particular. The threat to the UK financial sector's "license rights" in the EU could lead to a significant loss of European customers, undermining London's position as a global financial center. In addition, Brexit has weakened the value of the pound and increased volatility in financial markets, which poses a risk to the UK's financial stability.

In response to these challenges, the British government has actively adjusted its financial policy and is committed to maintaining London's status as a global financial center. By attracting top talent from around the world and strengthening cooperation with other world leading economies, the UK hopes to make up for the negative impact of Brexit. In addition, the UK is also actively seeking cooperation with China in the financial field to enhance its competitiveness in the global financial market.

3.2. Reasons for the Changes in UK Economic Policies

3.2.1. Domestic Economic Development Needs

The change in British economic policy is deeply influenced by the needs of domestic economic development. In order to cope with the impact of the international financial crisis in 2008, the British government launched the reform and opening-up upgrading policy and actively introduced foreign funds to promote economic growth. The core of this policy is to reduce the fiscal deficit and public debt through fiscal austerity measures, although these measures cause dissatisfaction in the short term, in the long term to boost the economy significantly. The UK government has also adjusted its tax policy, reducing corporate and personal income tax to attract more foreign investment. These policy reforms have not only created jobs, but also boosted economic recovery. For example, between 2012 and 2013, the number of foreign-funded projects introduced to the UK increased by 10.9% year-on-year, with foreign direct investment reaching £44.5 billion and creating 170,000 jobs [5].

3.2.2. Changes in the European Economic Landscape

Brexit is one of the important factors in the change of the European economic pattern, which has a profound impact on the economic policy of the United Kingdom. Britain's departure leaves the EU without an important economic contributor, the UK's economy is the largest in the EU after Germany's, and its departure has reduced the EU's GDP by about \$3 trillion [6]. In addition, the UK's exit has also led to a new funding gap of about 10 billion euros per year, which further intensifies the financial pressure on the EU. After Brexit, the UK's trade relationship with the EU enters a transition period, facing the risk of increasing trade costs and decreasing competitiveness. The UK's loss of access to the EU single market has led to increased trade barriers and reduced supply chain efficiency, which could undermine its international competition [7].

Brexit has had a significant impact on the UK's financial sector, with many financial institutions shifting operations to other European cities, leading to London's status as an international financial center being challenged. London, the world's largest trading center for the euro and a net exporter of financial services, faces a brain drain and a loss of competitiveness. Brexit has caused the economic and trade relationship between the UK and the EU to become unstable, increasing the uncertainty of trade and investment. In response to this uncertainty, the British government has taken a series of measures, including adjusting trade policy and strengthening trade negotiations with other countries.

3.2.3. Impact of Global Economic Environment

Changes in the global economic environment also have an important impact on the adjustment of British economic policy. In particular, the global financial crisis prompted the British government to adopt a flexible monetary policy to maintain economic stability. For example, after the financial crisis, the Bank of England cut the base rate from 5.25% to 0.25% and implemented the monetary policy of quantitative easing to stimulate the economy [8]. The Bank of England quickly cut its base rate to 0.1% and launched a series of fiscal stimulus measures to cushion the blow to the economy.

3.3. Policy Challenges and Opportunities

UK economic policy faces multiple challenges, including increased fiscal burdens, declining fiscal revenues, and economic uncertainty. However, Brexit also presents new opportunities for the UK to re-examine and reorient its links with the global economy. For example, the UK could reduce its dependence on the EU by strengthening trade negotiations with other countries and finding new sources of economic growth. In addition, Brexit has exacerbated divisions in British society, with identity politics replacing traditional class politics, leading to increased social inequality and populism. Brexit has also affected the UK's international standing, especially its voice within the EU. This could lead to a decline in Britain's influence in international affairs [9]. After Brexit, the relationship between the UK and the EU has entered a new stage of adjustment, and this change in the relationship has had a significant impact on the UK's global strategic position. The UK is no longer directly influenced by EU decisions, giving it greater autonomy in making foreign policy. However, this autonomy also comes with implications for international cooperation, as the UK will need to find new partners and forge new trade agreements around the globe.

Britain's departure from the European Union has also had an impact on USA-EU relations [10]. The UK's unique role in the EU used to be an important consideration for the US to adjust its European policy, but after Brexit, the UK's significance to the US global strategy declined, prompting the USA to shift its policy focus to Germany. In addition, Brexit may accelerate the easing of EU-Russia relations, because the United Kingdom has a tough stance toward Russia in the EU, and after Brexit, the moderate position of forces in the EU toward Russia will increase by 12 percent.

4. Conclusion

Brexit has had a profound and multi-faceted impact on the UK's economic policies. Before Brexit, the UK was actively involved in EU-wide economic cooperation. Post-Brexit, its trade policy faced major adjustments due to losing access to the EU single market, and the financial sector saw challenges to London's status. The reasons for policy changes are domestic economic needs, the shift in the European economic landscape, and the influence of the global economic environment. Although Brexit brought challenges such as economic uncertainty and fiscal burdens, it also offered opportunities like re-evaluating global economic links. To sum up, Brexit is a significant turning point. The UK must make well-considered policy decisions to manage these changes, aiming to boost economic resilience and competitiveness in the new global economic context. This paper mainly analyzes from a macro-perspective. It lacks in-depth micro-level exploration, such as the impact on different UK industries and SMEs. Also, it mainly uses quantitative and qualitative methods, without adopting case study methods for a comprehensive understanding of policy implementation cases. Future research could focus on the long-term dynamic impacts of Brexit on UK economic policies, like how they'll evolve in the next decade considering global economic, technological, and geopolitical changes. Research on the coordination and conflict between UK economic policies and international rules post-Brexit is also needed to study how the UK enhances its global economic competitiveness.

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