THE NEGATIVE EFFECT OF BREXIT ON BRITISH ECONOMY

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The decision of the United Kingdom to leave the European Union has shocked the world. The main reason behind this reaction is tied to the fact that the UK is one of the most important members of the Union and the future economic consequences of this separation may be devastating. The decision to quit the European Union had some immediate effects on Great Britain and it is possible to use available information to analyze the likely long-term negative effects of BREXIT on its economy.

As it is expected of such a move, the UK cut some important ties that came with the Union. First of all, BREXIT meant the loss of approximately 10,500 jobs in the service sector, such as finances (Musaddique, 2017). The reason behind this is connected to the fact that the British economy is historically tied to the European Union. Even more, the UK suffered considerable damage in terms of the stability of its currency. According to Mussaddique (2017), the rates of the pound sterling dropped almost twice after BREXIT was announced, although it began to stabilize in the following months. However, currency fluctuations resulted in increased budget spending, which in turn has slowed the growth of the British economy in general.

It is required to review BREXIT from yet another perspective: trade relations. As it is known, the members of the European Union are benefiting from the absence of trade barriers, and this creates favorable conditions for the movement of capital and resources within the borders of the trade block. According to Chen (2017), member-states of the European Union are holding seven out of ten positions in the list of top ten trade partners of the UK. For example, more than a half of the country’s agriculture export and import operations were tied to the European Union (Chen, 2017). Considering this fact, it is possible to conclude that the UK suffered considerable damage in terms of trade because of the loss of the benefits that come with a membership in a trade union.

The next important economic consequence of BREXIT concerns foreign direct investments. As a single market, the European Union does not have any barriers for the movement of capital and this creates opportunities for the allocation of foreign resources for the purpose of boosting the domestic economy (Van Reenen, 2016, p. 375). However, the decision to exit the Union is going to negatively affect the UK, mainly due to the fact that the movement of capital will be limited by trade regulations. Although there is no explorable short-term effect of BREXIT on the attractiveness of the UK in terms of foreign direct investments yet, it is possible to assume that long-term effects will reduce the desire of potential funders to invest into the British economy (Van Reenen, 2016, p. 375).

In conclusion, it is now possible to summarize the immediate negative effects of BREXIT on the economy of the United Kingdom. Some of the most evident short-term consequences of BREXIT included the loss of jobs in the service sector, currency worth fluctuations, and the natural destabilization of the banking sector in general. As a result, increased budget spending that followed BREXIT is most likely to slow down the economic growth of the United Kingdom. As for the long-term negative effects, the British economy is most likely to suffer from the loss of trade relations in some of the most crucial industries that are tied to the Union. Even more, the appearance of barriers to foreign direct investments is going to negatively impact the business environment of the United Kingdom.

References

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