

# BREAKING DOWN BREXIT

What it could mean for the British Economy and International Trade?

## Abstract

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Title of publication <b>Breaking Down Brexit</b> What it could mean for the British Economy and International Trade?		
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Abstract <p>United Kingdom's exit, or more familiarly known Brexit was a political decision of decision makers and the referendum voters to leave the European Union. This was done due to multiple different factors which intended to make United Kingdom more sovereign. Most of the people have very extreme-end opinions on the topic whether they want to remain or leave. In the thesis the period considered is 2016, the beginning of Brexit until 29 March 2019, the originally planned exit date.</p> <p>The main purpose of the thesis is to unfold and evaluate the economic benefits and disbenefits of the exit of United Kingdom from the EU as well as to see how this happened. This is done by deep research on the topic and comparing the announced different scenarios of Brexit. This is done also to gain a better understanding what are the options for the country in this process and what are the differences of the options.</p> <p>Macroeconomics is a collection of economic theories which affect a large, whole economy and therefore, is also used as the foundation of this thesis in addition to international trade theories such as the Gravity Model. A huge role plays the opinions of economists which are compared and evaluated. The research is done by using both, quantitative and qualitative methodology as the data researched is varying from numeral to non-numeral.</p>		
Keywords Brexit, European Union, United Kingdom		

## WORDS AND CONCEPTS

**Article 50** – A five step plan to leave the European Union. Also known as Lisbon Treaty (Ollerenshaw T 2016).

**Appreciation of currency** – Increase in the value of a currency belonging to the floating exchange rate system. Contrary to depreciation (Sharma R 2019)

**A Brit (Briton)** – A British person (plural) (Cambridge Dictionary 2019 a)

**A Quota(s)** - An allowance or a limit a person or a group is allowed to have of a certain thing (Cambridge Dictionary 2019 b)

**Backstop** – A safety policy to ensure there will be no harsh border between the Republic of Ireland and Northern Ireland (Walker P 2018)

**Bn** – Billion (Cambridge Dictionary 2019 c)

**Brexit** – The word used when talking about United Kingdom's exit from the European Union (The Economic times 2019)

**Brexitteer** – A person who wants United Kingdom to leave the European Union, usually in extreme matters (Cambridge Dictionary 2019 d)

**Cherry Picking** - In this case means picking only the best parts of the European Union and leaving out the rest that are unwanted. (Cambridge Dictionary 2019 e)

**Commons** – Short for House of Commons, a department of Parliament (Cambridge Dictionary 2019 f)

**Comparative advantage** - Comparative advantage a country's ability to carry out a specific economic activity such as producing a certain product with a smaller opportunity cost compared to other factors and countries (Kenton W a, 2018)

**Consumer price inflation** – Increase in prices of goods and services purchased by people in a certain amount of time (Cambridge Dictionary 2019 g)

**Customs** – The money that is paid when taking goods from a country to another. Does not apply to all goods. (Cambridge Dictionary 2019 h)

**Customs Union** – An agreement of countries to reduce or remove taxes when trading (Cambridge Dictionary 2019 i)

**Democracy** – A system in which majority of its members are able to control its decision making (Cambridge Dictionary 2019 j)

**Depreciation of currency** – Fall in the value of the currency belonging to the floating exchange rate system. Contrary of appreciation (Smith 2019)

**EEA** – European Economic Area (Cambridge Dictionary 2019 k)

**EFTA** – European Free Trade Association. An organization encouraging free trade between member states (Cambridge Dictionary 2019 l)

**EMCS** – Excise Movement and Control System. System to monitor the movement of goods in the European Union (Europa.eu b 2019)

**EU** – European Union (Cambridge Dictionary 2019 m)

**Export** – Domestic goods and services transported to be sold from the domestic market to the foreign market (Cambridge Dictionary 2019 n)

**Fluctuation** – Usually continuously appearing trend of change regarding a level or thing (Cambridge Dictionary 2019 o)

**FX risk** – Foreign exchange risk. The risk of losing money on the investments made in foreign currency because of changing exchange rates (Cambridge Dictionary 2019 ak)

**GDP** – Gross Domestic Product (Cambridge Dictionary 2019 p)

**Globalization** – Increased networking of the whole world. For example, in the form of trade or cultural influences (Cambridge Dictionary 2019 q)

**Good Friday Agreement** – Also known as the Belfast Agreement. An agreement of peace between the Irish- and the British Governments signed in 1998 (Northern Ireland Assembly 2019)

**Gravity Model** - Suggests factors affecting international trade (Rosenberg 2019)

**House of Lords** – One department of the Parliament. (Cambridge Dictionary 2019 r)

**Import** – Goods and services transported or bought from foreign country to the domestic country (Cambridge Dictionary 2019 s)

**Import tariff/duty** – A tariff applied to goods coming to a country from abroad to control imports and protect local industries. (Cambridge Dictionary 2019 t)

**Incoterms** – A term of international trade originally made by International Chamber of Commerce (Cambridge Dictionary 2019 u)

**Indicative vote** – A vote of Members of Parliament with non-binding resolutions (Institute for Government 2019 b)

**Internationalization**- Expanding company- or other operations abroad, across national borders and therefore becoming international. (Cambridge Dictionary 2019 v).

**Legally binding** – A conditioning agreement made under consciousness. Requires certain actions to be done and prohibits others in the eyes of law (Business dictionary 2019)

**Liverpool Model** – Alternative model the Gravity Model specifically designed for the United Kingdom (Minford, Scott Gato 2017)

**Londoner** – Name to describe a person from London (Cambridge Dictionary 2019 w)

**m** – Million (Cambridge Dictionary 2019 x)

**Macroeconomics** - Branch of economics studying the economy as a whole (Cambridge Dictionary 2019 y)

**MP** – A member of Parliament (Cambridge Dictionary 2019 z)

**PM** – The Prime Minister (Cambridge Dictionary 2019 aa)

**Political Declaration** – The Political Declaration is for setting plans regarding the future relationship with the European Union regarding security and trade. (ITV 2019)

**Remainer** – In case of Brexit, a person who voted in the 2016 referendum to remain in the European Union (Cambridge Dictionary 2019 ab)

**R&D** – Research and Development (Cambridge Dictionary 2019 ac)

**S&P 500** - Stock market index tracking 500 large U.S companies (Investopedia 2019)

**Single Market** – A system of free trade belonging to an economic area. In this case European Union (Cambridge Dictionary 2019)

**The European Court of Justice** – An organization formed by judges from each EU countries. Together decisions of the Union's laws (Cambridge Dictionary 2019 ad)

**The U.S** – United States (Cambridge Dictionary 2019 ae)

**Tory** – A member of Parliament belonging to the conservative party (Cambridge Dictionary 2019 af)

**Trade deal/agreement** – A legally binding agreement of two or more countries regarding the trade (Cambridge Dictionary 2019 ag)

**Trading partner** - A country with which a country imports and exports products with. (Cambridge Dictionary 2019 ah)

**Transition Period** – The time period after the exit of the UK from the EU if there is an exit deal. Allows time for the UK and EU to draw a trade deal and for businesses to adjust (BBC 2019 b)

**UK** – United Kingdom. Name to describe the geographic area of England, Wales, Scotland and Northern Ireland combined (Collins 2019)

**USD** – Dollar (\$) (Oxford Dictionaries 2019)

**VAT** – Value added tax. Used in European countries when a person purchases goods or services (Cambridge Dictionary 2019 ai)

**Volatility** – Something being prone to sudden changes (Cambridge Dictionary 2019 aj)

**Withdrawal Agreement (WA)** – The agreement sets how United Kingdom leaves the European union. It includes issues with citizens' rights, laws and regulations, question of the Irish border, transition period, money related factors such as the divorce bill. (BBC 2018 a)

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## 1 INTRODUCTION

We are all now witnessing something that has never happened before in the whole time of the existence of European Union. One of the first nine countries in the EU is now exiting the Union (Europa.eu b 2018) with what some call good reasons and some bad. What makes this even more obscure is that the exit is done by Article 50 (Kenton 2019) otherwise known as The Lisbon Treaty (Ollerenshaw 2016). The Lisbon Treaty has never been used to exit before. To put it simply, it is a five-step plan for exiting the European Union. Some experts have claimed the exit this way, ie., Brexit could take United Kingdom 10 years instead of the in the Article 50 defined two years (Ollerenshaw 2016).

Opinions of the residents of the country on the topic are divided. Foreigners living in the UK are concerned for the future and the Britons living across national borders are threatened with a possible loss of any protection. (BBC 2016 a.)

Long history of events has arguably led to this. Struggles with the European Economic Community in the past and EU regulations have caused unease in the past and tensed the relations of United Kingdom and the European Union. The relationship of the two got a little bit better with time, but the thought of having maximum sovereignty over the country's resources and full power of decision making never left the minds of some of the UK's decision makers. (History 2017.)

Negotiations between David Cameron and Theresa May were started in the beginning of 2016 which eventually led to the 2016 Brexit referendum (History 2017). Brexit was marketed as added sovereignty as well as a freedom of UK to make their own regulations and trade deals. Brexit was supposed to be something that would protect local companies and boost the British democracy. (Forbes 2016.)

The result of the referendum was positive for leaving by barely over half voting not to remain in the union. The voters were extremely divided by age, gender and location. From the result division it was quick to notice that young women in either Scotland or Northern Ireland were to most likely to vote to remain. Generally middle aged- or older men in England and Wales voted to leave. After the publishing of the results, many of the citizens were hoping for a second referendum, but this was quickly confirmed not to be an option by Theresa May and the MPs. (BBC 2016 a.)

It was predicted that if there was to be a second round of voting, the result would be positive for remaining. This was based on surveys held by different operators. (CNBC 2019.) So far, some EU countries, especially Finland have stepped forward to legislate a new special law to make life in the future easier for Britons living abroad (Saastamoinen 2019).

The exit of United Kingdom is not only about one agreement. Instead it is about two deals; one on how to exit and the other on how to continue trade from there. In the process the EU and the British Government have the highest power. There has been requests to give the British Parliament more power in the process and yet some advancement has been made. The requirement is to get a decision in two years and if that does not happen, the options are to ask for more time from the EU or exit without a deal. So far, the Parliament has not given a say in case of “No Deal” Brexit as no one knows what would follow if they were not to accept scenario. (Institute for Government 2019 a.) The predictions say having this vote could cause a possible second referendum or a new general election.

Other options for exiting are “Soft Brexit”, “Hard Brexit” and “Chequers Deal”. Simply explained, the harder the Brexit, the more things such as agreements and policies from the European Union will be given up. The Chequers Deal is an agreement made by Theresa May, (Channel 4 news 2018) and due to the conditions filed in it, it is already been rejected in Brussels (Slater 2018). Norway Model has been recommended to UK as a different, less risky option. For UK this means leaving the European Union and re-joining the European Economic Area (EEA), but yet the PM is not convinced with this option. (Payne 2018.) The labour party leader, Jeremy Corbyn is getting frustrated and has demanded Theresa May to come up with a deal that would get approval from the Parliament. By February 2019 there had been already 10 rejections for May’s Brexit proposals from the Parliament. (Numminen 2019.)

The process got even more complicated as the Prime Minister was unable to get an exit deal through the Commons. After many meaningful votes there still seemed to be no satisfactory solution. According to BBC, the greatest question turned out to be over the Irish border issues. The great defeats eventually led to the extension of Brexit and the Article 50. For many, this was an admission of failure and demonstration of bad leadership. In the process multiple members of Parliament had resigned. This was due to bad progress and changing values of the exit deal. (Preggio 2018.) Soon Brexit became what people call a “political deadlock” due to no ability to solve the issues regarding it (Morris 2019).

The British economy at the moment is doing well, regardless of its inability to fully revive the country’s production levels after the financial crisis of 2008 (Financial Times 2019). However, the predictions do not look too promising for the economy. Some economists praise Brexit as being the best thing that happened to the UK’s economy but still most of them think it might crash it. Even the Brexiteers agree that there will be at least a short term of intense disadvantages before the alleged advantages. (Economic Online 2019.) A big part of the British trade is done with the United States, but over half of the country’s

main trading partners are EU or EEA member states. Even if the relevancy of the gravity model is doubted, it is still very present in the situation of the UK. (BBC 2019 n.)

Industries reliant on foreign labour force are at risk. Regardless of skill level, UK does need migration according to the Office of National Statistic. Yet the country is doing its best to limit it. Companies are moving their operations offshore due to all uncertainties. Jobs are cut and people are left unemployed (Thelwell, Jackson, Harrison, Seddon, Wallis 2019). Many investors are no longer taking part in projects nor investing in British companies. These investors are especially aware of the foreign exchange risks regarding Sterling Pound. (Chen 2018 b.)

The currency, Sterling Pound, is surrounded by uncertainty and fluctuations. The on-going negotiations are having a definite effect on the rates which is causing the value of the currency to go up and down. (Exchange Rates 2019.) All the economic uncertainties are causing investors to step back and re-evaluate their current- and potential British investments. Tourists are doubtful of the currency fluctuations and the effects are predicted to be contrary to each other when talking about incoming- and outgoing tourism. The outgoing tourism, meaning Brits traveling abroad, is estimated to decrease a lot if the pound keeps depreciating. The incoming tourism meaning foreigners coming to the UK, could experience the opposite effect to it as their domestic currency would most likely be stronger than the pound and therefore the affordability would be totally different. (Nault 2018.) In case of a total crisis these predictions can be expected to change drastically.

Most of the evaluation and scenarios in the thesis are made following the effects of the no Brexit deal case, as that has been seen to have the most accurate predictions. This is due to being able to understand what it would bring to the UK much better than any other, less explained and not as publicly detailed exit plan prospect.

The exit of the United Kingdom is continuously brought up in news and newspapers. One after another having more dramatized titles to grab the attention of the reader. Of course, it is great the topic is discussed and brought to the daylight for all people across the world but unfortunately most of the time the information provided is very vague and only scratches the surface of the whole. With such topics it is easy to fall 'off the wagon'. This happens fast if you miss something as new information is constantly brought up and new negotiations are continuously held to reach a satisfactory result. Not just this intense flow of new and updated information but also the terminology used in the political language can be hard to follow and understand if one is not familiar with it.

The author has also previously studied the behaviour of young adults, 18+ of age when it comes to politics and voting on a small scale. From studying that the author understood

how little they participate and after polling at the campus with classmates the reason turned out to be the lack of knowledge and the “old-fashioned” political language aimed more at the previous generations.

The aim of the thesis is to cover as widely as possible the effects on Brexit on the UK economy and international trade. The author hopes also to compile and bring together as much collective information as possible generally on the topic. Most of the data will be on no Brexit deal scenario as from that there is the most knowledge and predictions of. Also, as an international student the author wants to bring up the importance of these domestically made decision on a scale of international relations. Therefore, the author wants to open the topic for the young audience in hopes of sparking a hint of interest and furthering the knowledge of these future voters and decision makers. Especially when it comes to the one of the hottest topics on the earth at this moment.

To put it short, the author wants to make Brexit easy for everyone to understand and follow. The contents of the thesis are visualized in more detail also in the table below (Table 1).

*Table 1 Contents of the Thesis Visualized*

<b>Introduction</b>	General introduction to Brexit Own Expectations and Hypothesis
<b>Breaking Down Brexit</b>	Answers to the questions what, where, when and why
<b>How Did Brexit Happen</b>	Illustrates the governmental process, states the referendum results and voter profiles
<b>Possibilities of Brexit</b>	Possible withdrawal deals and trade scenarios are introduced and explained
<b>The Irish Border</b>	Essential information on the Backstop and the relevancy of it in the equation of Brexit
<b>The Economy and Trade</b>	Familiarizes the British economy and economic forecasts. States trading partners as well as imports and exports of the country.
<b>Brexit for Industries</b>	Brings perspective on what Brexit means for different industries. Includes an interview regarding the topic
<b>Currency, Stocks and Investing</b>	Has forecasts and estimations regarding the future of Sterling pound Insight on how Brexit is affecting the stock markets and investing is given
<b>Conclusion</b>	Recap of everything Own opinions and estimations

The language used in the politics in a form of this thesis can make a change in the relevance of a topic to a wider audience. When seeing the whole picture and effect on whatever topic, better and more broad decisions can be made in the future as the extent can be better comprehended. As for the time frame, the research data starts from 2016 when Brexit was announced and limited to the 29 of March, the originally planned exit date.

There needs to be an emphasis on the fact that the research and its conclusions are objective and based on the author's opinions and views. The author is not an economist nor any sort of Brexit specialist which takes away also from the credibility. When reading the thesis own judgement is advised.

When it comes to the theory of the thesis, the base for it is macroeconomics and EU laws and regulations. Macroeconomics focuses on an economy as a whole, and with this case the thesis is about the economy of United Kingdom and generalized economy of the whole EU. (Chen 2018 a.) The author is also considering the European Union rules, laws, regulations as well as agreements regarding international trade.

To bring a perspective, individual trade agreements between two individual countries are reflected upon. When talking about economy such as in this thesis, the comparative advantages of UK needs to be understood. With that it can be evaluated if UK in the future will be able to focus on producing the products it has comparative advantage in, especially if it is losing some of the European trading partners due to the exit. The United Kingdom is interested in the so-called "Norway model". This means not being part of the EU, but instead just being part of the European Economic Area like Norway.

Therefore, a comparison of those two countries is made in detail taking into consideration important factors. Such factors are distance with trading countries as the Gravity Model suggests it being one of the most important aspects of intensive trade (Economy Watch 2010). As the author is not an economist, the opinions, estimations and theories of actual economists will be considered in order to gain a better understanding. It is said that to understand the future, we need to understand the past. Utilizing this ideology, the UK economy is studied thoroughly, and the forecasts made by experts are noted.

### **Limitations**

As Brexit is a relatively new topic it brings some limitations to the study. Literature on the topic itself is very limited in quantity as well as availability. In addition, not having that much similar researches on the topic. The researches in a thesis format done before are mostly general. Yet the author has not found one dedicated to the economy side of the

story with an international trade aspect, especially as a simplified version. However, as the topic is a quite fresh, so are the researches and articles written on it.

Another limitation is the perspective of the thesis. Brexit is approached macroeconomically and therefore the research is limited to it. There is also no juridical side of the story taken too deeply in to consideration other than just general guidelines of the withdrawal agreement and decision-making process.

### 1.1 Expectations and hypothesis

The topic was chosen because of the authors personal interest. Having history in living in London and having friends in the country sparked the author's curiosity on Brexit. The initial shock of people closest to the author made her want to look at what is beneath the surface of this political- and economical question.

Brexit as a topic is new and has a lot of value in relevancy. Most of the research is opinion based and for this reason the thesis is not written for a company, or any party, other than people interested in it.

From the research the author is expecting to find different perspectives on the topic and to gain a broader view on the positive and negative sides of Brexit. Her goal is to broaden her own ideas and expectations regarding the exit. The author hopes to get an understanding on why this was chosen by the public to be a good thing for United Kingdom but yet a huge part of the population seems to find it to be the exact opposite to that. The author is also looking forward to understanding the whole process better.

The thesis hypothesis is that United Kingdom should remain in the European Union. Them leaving the EU could negatively affect the continuous increasement of globalization, internationalization and movement of labour across borders as new limitations and borders would emerge.

The author is concerned by having witnessed the news stating ministers leaving the parliament. These ministers including the Brexit secretary commented leaving by saying 'Brexit is not good to the citizens or the country and the UK negotiation style is getting nowhere' (Luotonen, Salminen 2018). The delay warnings have as well indicated some un-sureness on behalf of the whole process.

Instead of Theresa May sticking to the harsh plan to leave the union she started what the EU called "Cherry picking". She picked out only the best regulations, laws and agreements from EU to remain in and wanted to leave out from the rest that she did not approve of into one agreement draft (Barigazzi, Herszenhorn 2018). Some state this was to

get more votes and to make as much people satisfied with the result as possible. However, to some it indicated uncertainty and lack of confidence in the original plan.

The author would place herself in the second group. Also, as an international business student she cannot see the few possible good outcomes over the bad ones on a larger scale. She does not think Brexit should be just about United Kingdom but also about its trading partners.

## 2 BREAKING DOWN BREXIT

It is fair to say, every person in their lifetime wishes to change some aspect in their life, but what is it about when a whole country wants to change a majority of its existence? UK has followed the European Union laws, rules and regulations since 1973, the first enlargement of EU. They have been a member ever since but now they are almost out of the whole system. (Europa.eu 2018.)

In this section an introduction to Brexit can be found. The introduction answers the following questions; what Brexit is, where is it happening and when. Lastly stating the reasons why, giving the original ideas why it was wanted in the first place and what things it is supposed to fix.

### 2.1 What, where and when?

In March of 2016 the process of United Kingdom leaving the European Union was triggered by the prime minister of the country, Theresa May, by organizing a referendum. Soon after which the Article 50 was announced, and the exit due date was set to 29 March 2019. The idea of Brexit is rather patriotic and is only focused to the good of United Kingdom. It is not so much for the mutual good of the country and the European Union.

Right from the beginning opinions of people were divided. Some had fantasied the exit and were glad that it was finally happening. One of them being "Terry" interviewed by BBC for their podcast called Brexit Britain. In the podcast he tells how he never believed something so good would finally happen. The joy mostly came from having the surrounding seas around the country protected again from foreign fishermen. They, according to him, have taken a huge chunk of the income of the local fishermen.

Claims like this make it easy to see why a local operator would see Brexit as a good thing. After all, Brexit is very much for domestic production and -labour protection. Another similar opinion is given by a man called "Paul" from Poland. He tells having loved his whole life in the UK. He told the BBC podcast interviewer that he does not care too much nor is afraid. He continued by telling emphasizing the importance of foreign labour force and immigrants in the British labour markets.

This comment gives a good perspective as most of the UK immigrants are Polish and altogether there is estimated to be 831,000 of them, overtaking the previously largest group of India as the country of origin (BBC 2016 b) (Figure 1). It is true that a process that big would take a lot of time and resources due to the high rate of immigration.

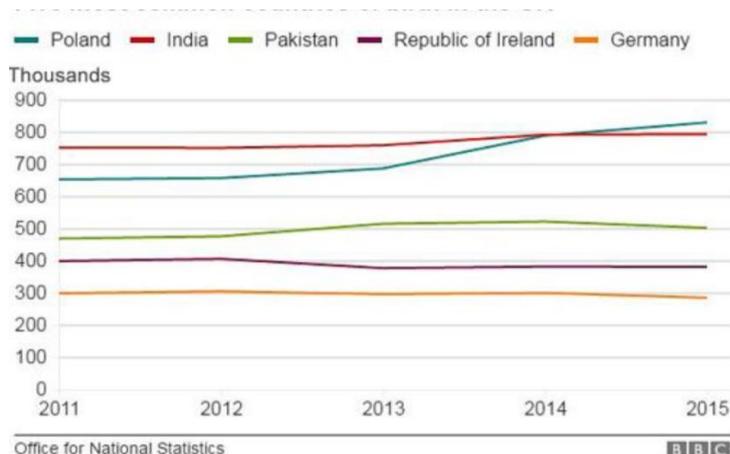


Figure 1 Five most common countries of birth in the UK (BBC 2016 b)

To give perspective, there were around 1.3 million Britons living abroad in other European Union member countries as can be seen from the Figure 2 below the one presenting foreign-born residents in the UK. Most of Britons living abroad were living in Spain, also an extremely popular vacation destination amongst British citizens. In that year Spain hosted over 300,000 citizens of the United Kingdom. The second largest 'host' country is the neighbouring Ireland and the third France with the direct train tunnel connecting the country to the United Kingdom. (BBC 2019 a.)

For some however, it became a fear and an absolute 'no-no' right away. The ones being afraid and voting to remain make the other extreme end. These people are generally international operators, part of the young generation or immigrants in the UK or from the UK immigrating another EU country. United Kingdom has brought up issues with support of workers operating in other countries and the future of in country immigrants is uncertain.

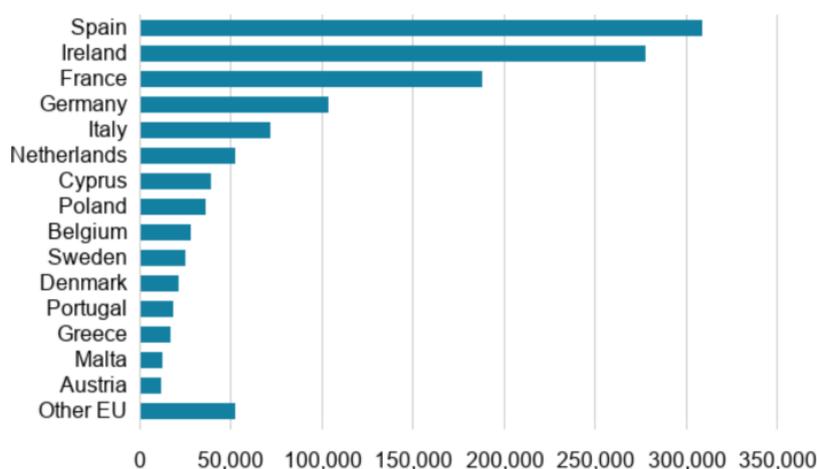


Figure 2 UK citizens living in other 27 EU states (BBC 2019 a)

## 2.2 Why?

There is a long history of UK struggling with the EU, starting back as far as 1984 when EU was still EEC, European Economic Community. With the lead of Margaret Thatcher negotiations to reduce British European Economic Community budget payments. BSE (Bovine spongiform encephalopathy), the mad cow disease outbreak in the UK added to the tension in 1997 when British meat was banned in the EU until 1999 in EU member countries, not including France. Later these problems with banning products occurred to other British goods as well which drove the issue even further. (History 2017.)

Even when Brexit is the first, it may sound familiar to some. Previously in 1975 there has been a referendum in the UK on if they should stay in the European Community, in which majority voted yes. This is illustrated in the Figure 3. The difference is extreme when the results are compared to the ones from 2016 asking, if UK should remain as a member of European Union. In this case the result was the opposite to that of 1975. (BBC News 2019 a.)

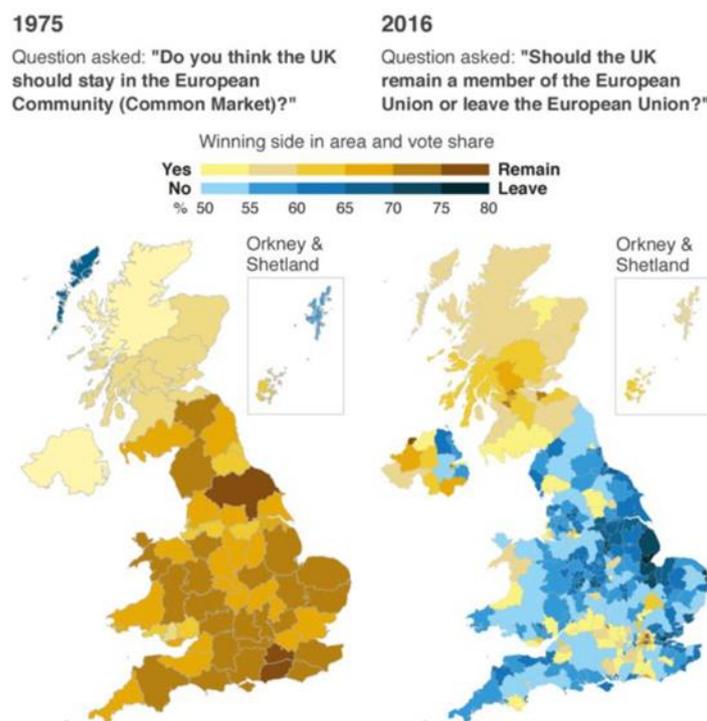


Figure 3 Europe referendum 1975 v 2016 (BBC News 2019 a)

In 2016 David Cameron negotiated with Theresa May on UK-EU relationship. May had just won the election to become the Prime Minister of the country. Migration, financial safeguards and EU regulations were discussed and on the 23 June the result of those negotiations was published. After this the infamous Brexit referendum was held. (History 2017.)

There are multiple reasons why Brexit was first suggested and why it became the reality. Negotiations with the EU have been going on for over two years to find common ground on what is realistic and achievable. So far both sides have been rejecting each other's offers and therefore even after two years it is not a "done deal" as the locals like to address it. (Friedman 2016.)

On the first hand, Brexit is to defeat the threat EU accusingly has over the sovereignty of United Kingdom. Also, the EU regulations are argued to be suffocating to the UK. The regulations and rules are not giving them as much self-determination as they would want to have. The main ideology and foundation to Brexit was to get more freedom to the country to make its own decisions and regulations on certain things. (Friedman 2016.)

Sovereignty, or increased nationalism was listed by Forbes to be one of the three main reasons for Brexit. The European immigration crisis has been said to have triggered the process and the will to have own immigration policies and stricter borders for better control. After the crisis, a mistrust for EU was building up more than ever and so was the fear of losing control over the decision making for the country. (Friedman 2016.)

In the same article the writer Friedman argues that Brexit was also a hit against the British elite such as financial industry and large business leaders. This is because they are blamed for irresponsible behaviour by some, accusingly leading to many problems regardless of this being truthful or not. (Friedman 2016.)

However, Anna Soubry, a British politician opens up about what she thinks is the truth behind Brexit in an interview originally done for Newsnight. She believes after confronting May and talking with her that the only reasons May wants to get out of customs union is to strike new trade deals and to leave single market just to end the free movement of labour. She claims, "Theresa May has always had something against immigration" that she cannot understand why in the modern day and -time. (BBC 2019 b.)

Friedman also discusses in his article about the importance of economic factors (Friedman 2016). The curiosity grew over EU in international trade and setting free trade agreements became more wanted. Especially interest UK has been in trade deals and agreements with the United States of America and China. EU not approving these separate, conflicting agreements, something needed to be changed and for the UK the solution was to propose the idea of leaving and arrange a referendum.

While on the topic of regulating free international trade, import tariffs, duties and taxes should also be brought up. The local producers were wanted to be protected from the effect of increased internationalization and globalization. Tariffs were wanted to set to

regulate foreign products on the domestic market that way control foreign competition in the country. Also, getting out of Customs Union was a way to boost this regulating. Customs Union is a non-concrete border bordering all European Union. Customs Union has made it so that once a product enters EU it is free to move inside of it and further regulated with UUC, Union Customs Code. (Europa.eu 2019 a.)

All in all, EU shares nearly 15% of the world trade. By giving up the border of United Kingdom could be protected and surveillance more strictly. With stricter protections UK may mean the import tariff application to foreign but also better border control to prevent illegal commodities, like drugs, from entering the market. Even though many EU countries are extremely precise with what they allow into the Customs Union, the poorer member countries with not all the same level resources are more likely to accidentally let these unwanted goods in the union. After this kind of incidence, the unwanted goods end up moving with little to no interruptions inside of the union. Due to this issue, it is very much understandable why any country would like to fix the situation but in all this the rising nationalism can also be seen.

At the same time, when the imports and exports are wanted to be more regulated, May has addressed that UK is not anti-free trade but instead they aim to become a global leader of free trade. So far Australia has addressed being interested in partnership of trade with the UK once United Kingdom has left the European Union. (Gov UK 2016 a.) With Brexit United Kingdom also wants to boost their democracy. Trade Unionist Enrico Tortolano claims EU is anti-democratic and if this was to be believed it would give another argument for UK for leaving.

Brexit is not coming cheap for the United Kingdom and just the exit bill alone will be around £35-£39bn. The number is just an estimation and heavily dependent on the future events. (Parliament UK 2018.) Multiple news sites are estimating that by 2030 the overall costs could have risen all the way to £100bn. If the cost estimates are to be correct, it would mean the cost will be one third of the losses caused by the 2008 financial crisis. Regardless of the expenditure, many still believe Brexit is worth it. (Schmidt-Karaca 2018.)

When it comes to the monthly spending of the Department for Exiting the European Union (DExEU), they have agreed to transparency. For the past months the spending has been reported to be over £25,000 per month. (Gov UK.) Financial Times posted estimations on the weekly costs of Brexit already being £469m a week as the statistics below shows (Figure 4). The estimates were divided by relative to pre-referendum forecasts, geographical comparisons, historical comparisons and calculation the average of them all. (Giles 2018.)



Figure 4 Estimates on how much Brexit costs in a week (Giles 2018)

It can be seen easily how expensive the process is getting. The longer the process becomes, the higher the expenses climb. An extension to the Brexit process could make these numbers skyrocket.

### 3 HOW DID BREXIT HAPPEN?

If it is such a controversial thing, how did it happen then? In this section the author will go into more detail on how the United Kingdom's exit first started unfolding and what things effected it and finalized the decision to leave the European Union. Two categories were considered, researched and explained: the governmental side and citizens who voted in the referendum.

With the government it will be stated the different approaches in addition to the opinions different parties have on the topic. Also, the role of Parliament is gone over. The time period considered is shorty pre-Brexit and the referendum until the decision of extending Article 50.

In the "voting in the referendum" -part the voter profiles will be considered. The potential reasonings for harshly divided results will be opened and reasoned. The rumours over Scotland's independence are also discussed in the end of the section.

#### 3.1 The Government

The process of exiting and the original idea to it was introduced to the public by Theresa May. She is the prime minister of the country and could be said she became the face of Brexit. The process was started in 2016 by a referendum. The full kickstart to it was in 2017 when Article 50 or The Lisbon Treaty was properly triggered which also started the two-year clock to tick. This meant the deal had to be signed in that time period. (Kenton 2019.)

Brexit is about two deals that need to be settled with the Government and the EU; the actual exit deal and the new deal including new trade policies and such regulations (Institute for Government 2019). The exit WA bill needs to be approved by the House of Commons in order for the withdrawal to take place (Gov UK 2016 a). All the remaining members of the EU have to also approve it and as it is done with the Article 50 parties such as the Council representing a member state is not allowed to discuss decisions with European Council (Ollerenshaw 2016). Right from the beginning May was emphasizing wanting to remain good relations with the EU. She confirmed that until the exit UK will take full care of their responsibilities and obligations as an EU member and added that UK is not going to turn their back on the EU. (Gov UK 2016 a.)

In the case of Brexit, any deal proposed by May needs to be approved not just by The EU but also by the Government and Parliament. The House of Lords has proposed an amendment which was requested to give The Parliament greater voting power and separate votes in the exit deal, new deal and no deal scenario. The no-deal vote was rejected by the Commons as there is no knowledge on what would happen if they would not approve no deal situation. However, they did get a say if voluntarily leave without a deal. The Parliamentary role is now questioned whether they should be able legally and politically prevent the no deal withdrawal in case no deal exit happens without further options. With a Conservative minority in The Government in the past the greater Parliamentary involvement was also wanted for Brexit.

The requests for vote in no deal scenario are still asked for. If the Government cannot get the withdrawal agreement in two years, it would lead to the infamous no deal Brexit. This is unless the EU grants the UK an extension. (Institute for Government 2019.) The only way to for sure prevent no deal from happening would be by revoking the Article 50 which PM May commented with 'she shall not do' or finally striking a deal with the EU (Kuenssberg 2019).

In addition to no deal, there are three other proper exit options; Hard Brexit, Softer Brexit and Chequers Deal. Hard Brexit is wanted by a lot of conservative MPs. The conservatives generally have strict opinions on the topics that led to Brexit in the first place. For this reason, they also tend to have harsh opinions on how the exiting should happen. Hard Brexit is wanted for radical and immediate changes to the laws and trade and is the strictest of all if leaving out the no deal – option. The labour party, SNP and liberals are hoping for the softer version of Brexit. (Channel 4 News 2018). The labour party MPs also would have wanted another round of voting (Hunt, Wheeler 2019).

The want to protect the competition and labour market are the reasons leading to still wanting the exit to happen but also the understanding of international relations has led to not wanting to do it as extreme as the conservative party would like to. Government is placing themselves in the middle by the lead of May and her solution of Chequers deal. (Channel 4 News 2018.) All the four deal options will be explained in more detail later in the thesis alongside different trading possibilities.

According to Alex Hunt and Brian Wheeler from the BBC news, the main fear of any MPs against Brexit, is the toll it could have over the country's international trade. Especially if new trade deals are not able to be arranged. Also, the importance of foreign labour force has been brought up in multiple occasions. They also added that in any case, the chances of continued free trade with the EU are next to nothing. The responsibility of the

government is high and so is the risk of things turning upside down. If nothing was to work, it is good to remind that, Article 50 could also be revoked if needed. (Morris 2019.) To revoke it, UK will not even need the agreement of the other 27 member states (Barnes 2019).

### **The Governmental process in more detail**

So far, all May's deal agreements have been rejected by the Parliament. Even though usually proposes by the Government and the PM get accepted. This is because the Government has majority of Parliament seats reserved for itself. The MPs are allowed to ask for amendments regarding the UK-EU deal if not pleased with the outcome; which some of them have already done.

Three examples of tabled amendments can be found from the table below (Table 2), the explanations previously provided in the BBC News. It is good to note that the amendments include clearly important and essential stances that the deal by PM May has been lacking all along. (Kuenssberg L 2019) The European Union has responded more or less directly to these requested civil right amendments. Stating they do not want to negotiate "mini deals" and if the protection is wanted to be reached, a proper Brexit agreement should be negotiated.

*Table 2 The Tabled Amendments (BBC 2019 c)*

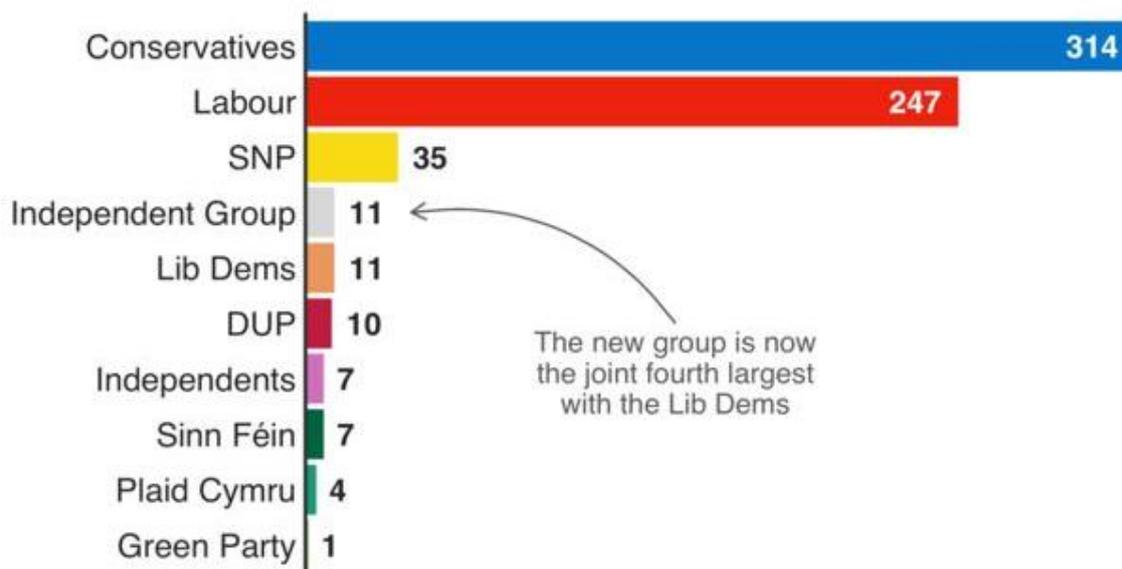
<b>The Amendment</b>	<b>Goal</b>
The Independent Group amendment	To get the Parliament enough time before March 8th to plan the steps of a possible another referendum.
The Alberto Costa amendment	Protect the rights of the British citizens and EU citizens living in either UK or EU, no matter the future relationship of those two.
The Cooper amendment	To get the MPs to have a vote on wheat-ear to extend the negotiations for a short time or not in case of PM's deals keep getting rejected.

Many of the ministers, including the representative of whole Northern Ireland has resigned and left the negotiations reflecting on the poor progression and changes in plans. The citizens do not know in detail what exactly changed so much in the plan, but the leaving members commented leaving by stating that what Brexit is about to be, is not what was promised to the public. This has made it so they are no longer able to stand behind it. (Luotonen, Salminen 2018.)

Also, the Brexit Secretary himself resigned from his duties by stating in twitter that he *“cannot in a good conscience support the term proposed for our deal with the EU”* while also posting a picture of a letter sent to the prime minister. In the letter he explained the reasons why, in more detail. (Preggio 2018.) Liberal Democrat leader, and second referendum supporter Sir Vince Cable has also expressed his unhappiness of the situation by stating: *“This is a million miles from what the Brexiters promised two years ago and will create decades of uncertainty for business and investors”* (BBC 2018 b).

8th of February 2019 the news broke out that seven more Members of Parliament had resigned from the labour party, as a way to protest against the leader Jeremy Corbyn and his ideology, leadership and Brexit stance. The MPs have announced that they will represent in the Parliament as an individual group. (Perraudin 2019.) The same day three MPs of the conservative party also resigned due to the party getting a reputation they themselves did not stand for (Sipilä 2019). This individual group has since grown to be the fourth largely represented group alongside Liberal Democrats in the Parliament House of Commons, as can be seen from the graph located below (Figure 5).

In this independent group is not just former Labour party MPs but also representatives who used to belong to the Conservative party. From the same graph it is seen that as of February 21<sup>st</sup>, 2019, Conservatives have gained the absolute majority of MPs back. The Independent group has created ‘a safe place’ for resigning MPs which has led to excessive threatening of leaving on their behalf, tells Heather Stewart and Dan Sabbagh from The Guardian. (The Guardian 2019.)



Note: Sinn Féin MPs do not take their seats

Figure 5 The Current state of parties in Parliament, Number of MPs with each group in the House of Commons (BBC 2019 b)

MPs were let down by May as she postponed the meaningful vote on the revised withdrawal deal while representing in Sharm El Sheikh, Egypt. The vote was supposed to take place the week 9, 2019 but it was repositioned to take place by the 12th of March 2019. Starmer, a Labour party politician calls this decision on postponing as "*the height of irresponsibility and admission of failure*". (Syal 2019.)

The European commission President, Jean-Claude Juncker has said before "*...it is this deal or Brexit might not happen at all*" (Rourke 2019). The same week three cabinet ministers threatened May and informed that they try to extend the Article 50 in the Commons if there was not a deal by March 13, 2019, which obviously there was not. Yet there are still some members who believe this postponing is just avoiding the inevitable decision making. (Boffey, O'Caroll, Stewart 2019.) A day before the vote, on March 11<sup>th</sup> May was able to get acceptance on some legally binding changes to the agreement with the European Union. The changes were regarding the Irish border, also known as the Backstop. These changes confirmed the backstop being temporary solution, replaced by an alternative December 2020. She was convinced this would win her the majority back up she needed. (BBC 2019 d.) The meaningful vote is also known as the 'big vote'. This Parliamentary vote determinates if May's deal is finally accepted or not.

On March 12, 2019 May was defeated in the Commons. A deal, already accepted by the PM as well as the European Union was torn to shreds once again. The majority of 149 members of Parliament voted against the deal, forecasted The Guardian live after the

results came. On the behalf voted majority of the Conservative MPs totalling up to 235 votes. Only three from the Labour party and four from the Independent voted for the deal. These three parties summed up to 242 votes on the behalf of the deal. It is no surprise fellow Conservatives backed up the deal proposed by the Prime Minister as they represent the same party. Against the deal were notably more MPs: 238 labour party MPs, 75 Conservatives, 35 representatives of SNP, 17 independents voted against to mention a few. Altogether there were 391 against the deal. The Labour party MPs were expected to vote against due to their past Brexit stance.

May confirmed there is a vote the next day on if to leave voluntarily without a deal or not. The Prime Minister May herself claims to be against the no Brexit deal scenario. Furthermore, to avoid the no deal scenario the Government published more information on the no deal effects the day after the meaningful vote. According to May this was to ensure the MPs understood better what the situation of no deal would mean for the United Kingdom. (Sparrow, Weaver, Lyons, Rawlinson, 2019.) BBC states these result makes it even worse for the uncertain economy and doubtful entrepreneurs. In the same article it is told that European Union is blaming the UK for inability to make the decision. (Adler 2019.)

The Guardian reveals that in late February, due to the postponing of the meaningful vote, the speculations of actually extending Brexit started. In February 2019 Scotland SNP requested for three months postponing for the exit day but this was rejected by the parliament. As the Parliament still rejected the deal with the meaningful vote, there was another vote the next day. This vote was to finalize whether United Kingdom should leave without the deal or request delaying of the whole Brexit. As after all a delaying would mean on estimate seven new options for the UK according to BBC on how to progress. United Kingdom could leave without a deal or revoke the Article 50. The members of Parliament could have a new vote on the deal or new general election. There could be a vote of no confidence. There could be new referendum on the exit and renegotiations on the topic. (Barnes 2019.)

News sites state that EU sources stress that Brexit could be delayed as much as until 2021 regardless of the previous parliamentary decisions. There have been discussions amongst people to replace the 21- month transition period with added time for UK and EU to settle the most important, yet unsolved issues. This is because the predictions simply were not looking too good as Britain's time to strike a legally binding deal was slowly but surely ticking out. (Boffey, O'Carroll, Stewart 2019.) Donald Tusk, the EU president has also addressed thinking that the extension of the Article 50 would be an intelligible solution to the lack of negotiation time (Stone 2019).

However, even if having no say in the no deal scenario, there was to be a vote whether it is a wanted option after all or if the asking for more time should be started. The extending would ideally be only for short term and original estimations placed this vote to take place on the 13th of March 2019. May tells a long extension would disrespect the people who voted to leave in 2016. UK would have to take place in the European Parliament election and by extending the negotiation process, the no deal scenario would still not be off the table. Shall not be forgotten that all the remaining 27-member states need to agree with the extension as well. (Kuenssberg 2019.)

Many member countries do agree that UK needs more time to figure out open questions but France is getting impatient over the process. In early March 2019, Daily Mail wrote that EU might demand up to £1bn from the UK for each month delayed. (Stickings 2019.)

As previously promised, the members of Parliament debated and voted on if to leave the European Union voluntarily without a deal. This debate and vote were held 13th of March as planned and the results were published the same evening. In the debate May as well as some MPs were blamed for not listening by each other. May was accused for not delivering what was promised. A Scottish MP referred to the extensive spending of the government as a waste of resources that could have been used better. Fingers were pointed and diverse opinions were brought up.

Some even argued the fact that no deal scenario was never an option and was never meant to happen -not to mention actually having to vote for, or against it. Nevertheless, this division of stances was also visible in the results. (Kuessenberg 2019 a.) A narrow majority of 4 MPs had voted not to leave without a deal. The final result was 312 to 308. This vote was against no deal in under any circumstances.

In another vote this result was pushed to 321 to 278 being against the deal. This leads to the majority of 43 members of Parliament. In this case leaving without a deal on the 29th of March 2019 was in question. These decisions of MPs alone are not legally binding and do not rule out the no Brexit deal scenario. (Kuessenberg 2019 b.)

On the same day, the House debated and voted on an amendment called the Malthouse Compromise. Named after the Government minister devising it, the focus was mainly on the Backstop and transition period questions. It suggested an extended transition period to allow more time to come up with trade relationship and aimed to a soft border. The backstop wanted to be replaced with a free trade agreement and technology utilization to avoid customs checks. (Elgot 2019.) The compromise was also rejected 374 to 165. (Kuessenberg 2019 c).

As no deal was voted against, it was the time to decide if to extend the Article 50. The sequence of votes continued on 14<sup>th</sup> of March with exactly that topic. After the Parliamentary debate they voted for extension 413 to 202. The agreed extension would delay Brexit until 30 June 2019. This would be approximately three months delay. This itself guaranteed nothing as the remaining members also needed to agree this extension. (BBC 2019 d.) What seemed to have confused was the Brexit secretary who proposed the delay, voting against it. Multiple verified Twitter users took it out on the platform to say it is not 'normal' to act like so. (Whannel, Morris, Morris, Kleiderman, Seddon 2019.)

While extension was voted for, a second referendum was voted against in the Commons. Before a second referendum was held as an opportunity but now that too has been ruled out by the members of Parliament. By this, they are handing all the remaining power to the European Union. As mentioned earlier, in case EU decisions lead to non-stoppable no-deal scenario, the Parliament does not have given a say in that. At least that is how it now.

After the results EU Commission declared being ready for both scenarios; deal and no deal. Predictions on news sites such as BBC started to surface on a possible third meaningful vote on PM May's deal. Before that however, on 14<sup>th</sup> of March there was yet another vote on whether to ask the European Union for more time in a form of short-term delay. If the delay was to be granted, EU would most likely propose ideas regarding the time management and planning process. (Kuessenberg 2019.)

Guy Verhofstadt, a Belgian politician, has confronted UK representatives in the European Parliament. He demanded the unclarity to stop for both sides. He addressed opposing a long Brexit extension as said it could make it possible for the Frange to 'destroy EU from within'. He believes the younger generation will eventually re-join the union. He also calls Brexit a 'bullet, for both, the Conservatives and Labour-party, to kill each other'. (Verhofstadt 2019.)

After all the rejections, Theresa May, as predicted, took it to European Union to ask for an extension until June 30. First, she sent a formal letter to the Donald Tusk and on the 21<sup>st</sup> of March she flew to Brussels to pitch the case to the EU leaders. (Morris 2019.)

Instead of generally admitting failure, she took it upon the Parliament. When addressing the extension on British national television, she blamed the MPs for not voting for a deal. She states the MPs had not been clear enough with what they want from the deal. This situation has been named as 'parliamentary deadlock' due to the inability to get any further with getting a deal accepted. Some people say this now created tension by May and the approaching deadline may indicate a future change in the Cabinet. (Morris 2019.)

In order for United Kingdom to get an extension, EU wants to know exactly why it is needed. European Union cannot grant the extension without knowing that there is indeed a plan how to proceed. A plan in this case is getting the divorce bill though in the Commons. Without a plan, the extension might just be waste of time and resources for both parties. There is also a pressure on the EU to agree to the extension. (Morris 2019.)

Otherwise the Members of European Parliament might get blamed for a possible no-deal Brexit. However, European Union is not too keen on the idea of extending either for partially the same reason the UK Prime Minister has. The EU parliament elections are taking place in May 2019 and the UK would not like to participate in it. Nor would the EU want UK to take part in the elections. EU sees short term extension as an opportunity, no more than three months. Still it is not convinced by the idea of delaying Brexit in the long term, any longer than that three months (Morris 2019).

After negotiations in Brussels, EU agreed to an extension until 22 May 2019. This was under one condition; MPs would have to have agreed on a deal by the end of the week 13. If this was not to happen, the extension would only be until 12 April 2019. (BBC 2019 f.) This still did not mean the exit could not have been done in time, 29 of March 2019.

The next week was rather important on the behalf of the negotiations. May announced she would resign from her duties if Parliament just accepted her deal. However, the Parliament ended up rejecting all eight proposals of hers in the Commons with indicative votes. The proposals rejected are visible in the table number three. (Table 3). This resulted the United Kingdom not being able to exit on the 29<sup>th</sup> of March 2019, the original date set up for the exit. Eventually this deadlock could end up with the vote of no confidence. This would mean the Parliament alongside the Government fully splitting up. (BBC 2019 f.)

*Table 3 Proposals rejected by the Parliament in late March 2019 (BBC 2019 f)*

<b>Proposal</b>
Leaving the European Union without a deal on 12 of April 2019
Unilaterally dropping the plan to exit the Union if there is no deal by the 12 of April 2019
New referendum on the deals on leaving the European Union
Leaving the European Union but staying in the customs union
Leaving the EU but staying in the EEA
Leaving the EU but joining back to the European Free Trade Association
Renegotiating May's withdrawal deal to fit better the stance of the Labour Party
Having a 2-year-agreement with the EU during which UK would have full access to the European Union markets

On the 29<sup>th</sup> of March, the original exit date, there still was no deal. Theresa May was given one more chance to get the Parliamentary agreement. This time the vote did not include the Political Declaration. Still, it was rejected once again in the Commons. This time with the majority of 58 members of Parliament. 344 MPs voted against it and 286 on the behalf of it. This meant Brexit did not happen in time and the extension was shortened until the 12<sup>th</sup> of April 2019. (ITV 2019.)

TDRL News claim that the no Brexit deal scenario could be inevitable if it is to believe their theory which is based on the game theory. The theory is otherwise known as the prisoner's dilemma. In their theory one in the Parliament 'Remainers' do not want the Brexiteers to win or the other way around. This would cause the Parliament to vote not for the best possible outcome in the possible no deal voting but rather vote for the sure option which would cause the opposite end to lose. No deal would be the pick to gain exactly that. Brexiteers just might get the harsh exit and for the anti-Brexit MPs this could at its best mean a new general election or a second referendum. Neither is the optimal solution, but instead a possibility for both extreme ends. (TDRL News 2019.) Even when this was proved false in the rounds of voting, it does not fully remove the chance of this applying in the future. Especially if there was to be another vote on the topic in case of a dead end.

Leaving with no deal is currently wanted by nobody besides the hardcore Brexiteers due to all the trouble and concerns it would bring with it. Having no deal with the EU would bring a lot of inconveniences to both, United Kingdom and European Union. At this point, warnings of No Deal Brexit have been given to the citizens to prepare them to what is yet to come. May has hinted "no deal" not being the preferred leaving option but still better than so called "Canada style agreement" (Hughes 2018). Canada model is explained later on in the thesis alongside other trade opportunities.

### 3.2 Voting in the referendum and the result

In order to make Brexit happen there had to be a public vote and the result had to be positive for leaving the European Union. Like in any democratic nation, this means that the majority of the voters had to vote to leave if wanted to make this happen.

When it comes to the voters there was a strict division on the profiles of those who voted to leave, and those who wanted to stay. Geographically the United Kingdom was divided in two. In England and Wales in which most of the voting population wanted out of the EU and Scotland and Northern Ireland in both of which majority wanted to remain in the Union. This is illustrated in the EU referendum graph (Figure 6) (BBC 2019 e). This can be due to the demographic structure of the areas as later is explained the effect on age.

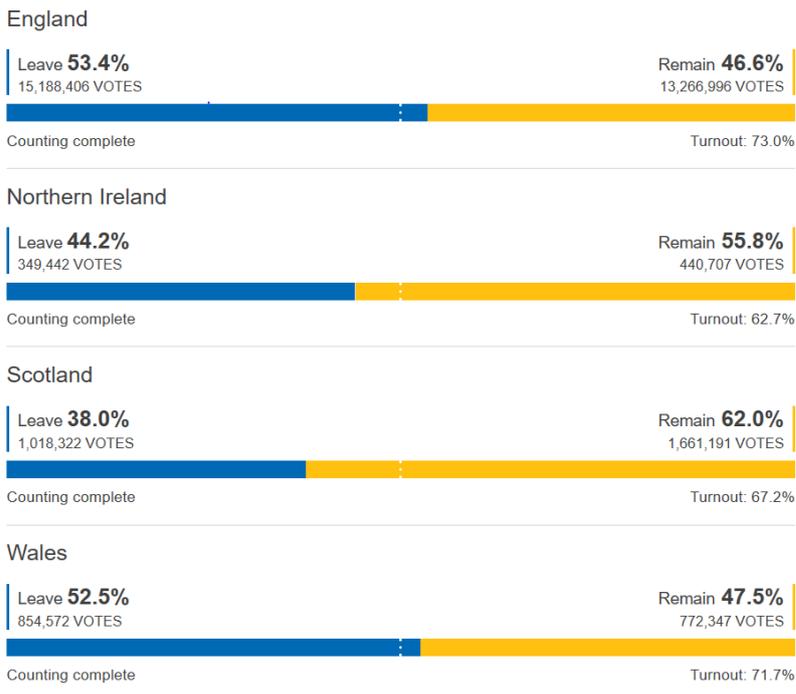


Figure 6 Nation Results (BBC 2019 e)

The capital of London however seemed to have skipped the trend going on generally in England to vote out and joined Northern Ireland and Scotland with most of the voters voting to remain. (Figure 7) It can be figured this can be due to the intensive amount of immigration in the capital of London. Currently London has 38% of its residents born outside of United Kingdom and 24% of non-British residents making it the highest rate in the whole UK. Also, the regional differences in education can affect as educational background has been proven to affect one's decisions in referendum voting's. (BBC 2016 a).



Figure 7 London Referendum results. Yellow: Remain, Blue: Leave. Number of voters. 3,776,751 (BBC 2016 a)

The geography was not the only factor in which the voting results were divided in two. Also, age differences seemed to have clear role in the in whether to leave or remain in the union. This is well presented in the figure below (Figure 8). The younger population had the tendency to want to remain in the EU. In this category goes the ages between 18 and 24 as well as the group of the ages of 25-34. The older population, people of the ages of 65 and up tented to vote out. The remaining middle part of age division (35-64 years-olds)

fell relatively equally into both categories, to leave and to remain. In addition, there was a clear lack in the participation of young adults. (BBC 2016 a.)

Such result can be due to many things. It is believed that younger generation find immigration enriching United Kingdom and the older population does not feel that it is so. Also, most of the 18-34 years-olds do not see UK's economy getting better post-Brexit and again, with older ages the answer was the opposite. (Curtice 2018.) BBC News stated in 2016 that the education one has, and their voting history also play a role in the results. In the same article they also state that research shows that a person coming from more immigrated area was more likely to want to remain than a person coming from another area.

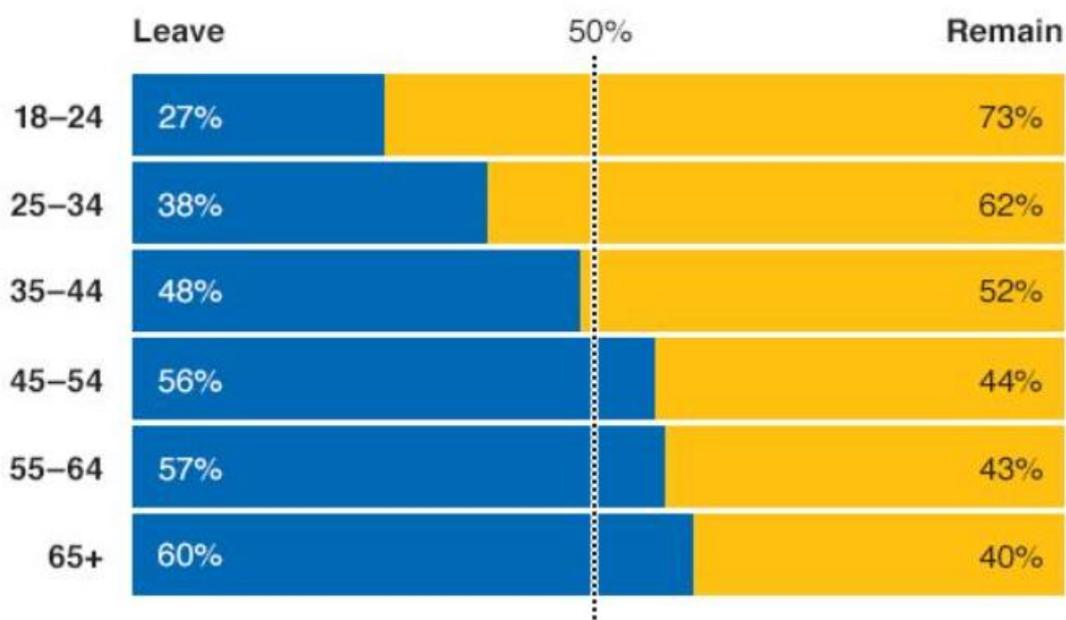


Figure 8 How different age groups voted (BBC 2016 a)

The role of gender can also be detected from the referendum results. When comparing male and female, females had higher per centages to remain in the union (Figure 9). The biggest difference between the two genders was between the ages of 18-24-years old where 80% of females voted to remain and only 61% of men. The smallest gap in per centages on whether to leave or remain was in the age group of 25-49 years-old where the difference was only 1%. 47% of males and 46% of female voted to leave. (Statista 2019.)

Such gender difference can be hard to rationalize, however after doing some researching, a possible reason for this was found. Dr. Therese Hutson states in her interview with Forbes that females are more considerate and able to see further in decision making process and males seem to be more impulsive decision makers and willing to take more

risks. Also, according to her females generally much rather go with a safer option, even if the reward coming from it is smaller than in a riskier option. (Caprino 2016.)

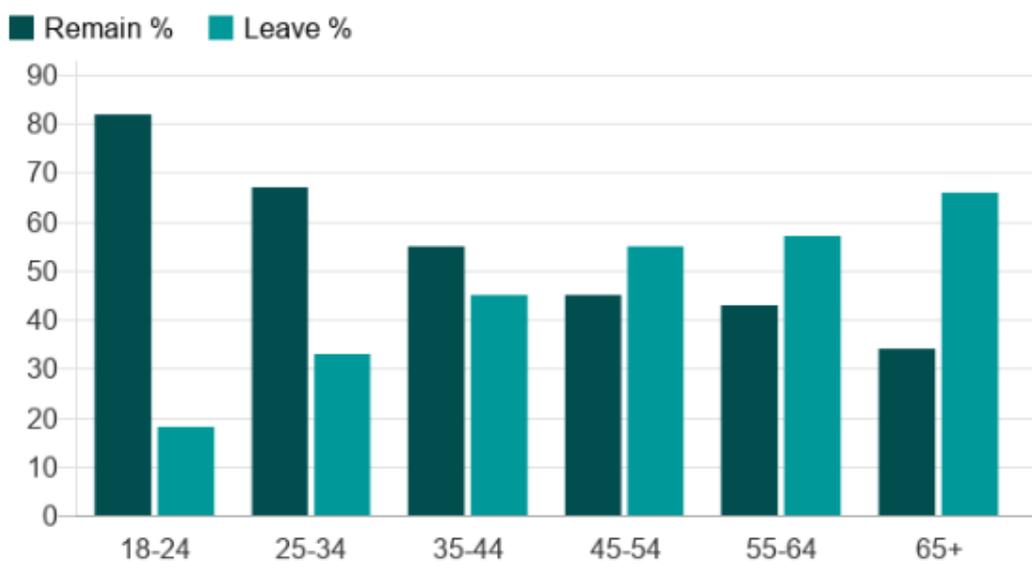
	Remain	Leave
Male 18-24	61%	39%
Male 25-49	53%	47%
Male 50-64	39%	61%
Male 65+	38%	62%
Female 18-24	80%	20%
Female 25-49	54%	46%
Female 50-64	40%	60%
Female 65+	34%	66%

*Figure 9 Referendum division by gender and age group (Statista 2019)*

Even before the referendum was held, there was a petition regarding it. With over four million signatures people were demanding the turnout needs to be more than 75% or winning majority over 60%. If not to be so, second referendum would be wanted. (Hern 2019).

After the votes were counted in, and the decision of leaving was announced. For many it came as a shock. This can be seen as an endorsement of a massive plea for another round of voting. The process wants to be stopped by many parties and individuals and in no-deal case. However, May still stands by that breaching the referendum results would be a huge disrespect to the British democracy (Exchange Rates UK 2019). A question had been awakened; is this about the pride or what is actually good for the country and its citizens? How would it be a disrespect to give another round of voting? If the result was to change, it would still be a democratic decision, resulted by majority voting to remain. According to the reaction to the published results, can be seen that not everyone necessarily understood the real effect and extent of Brexit. They were told the good sides and they gave their vote on the behalf of it.

Now the result could be different due to increased awareness especially on the cons on the topic rather than anything else. This is also rather conflicting with the accusations of Brexit boosting democracy if already at this point the “elite”, in this case the PM is deciding on the behalf of the public not to have another round of voting. According to a survey done by YouGov, 46% voted to remain instead and only 39% voted to leave and they believe this would also be the situation if second referendum was held immediately. The results are visible in the graph below (Figure 10). (CNBC 2019)



*Figure 10 How would different age groups vote if there was a second EU referendum. Average of four polls by Survation, May-July 2018 (BBC Three 2018)*

Late March 2019 UK's governmental webpage published a petition regarding revoking Article 50 and remaining in the Union. The petition page was quickly crashed. Almost 600 000 people signed the petition with an average rate of 1,500 signatures per minute (Hern 2019). This illustrates just what people think about the mess Brexit had become. No deal on withdrawal and no new trade agreement got people worried.

Time was running out. May was asking for more but yet there was nothing guaranteed for the country. This massive plea for revoking also supports the theory of if there was ever to be another referendum, the result would likely be for remaining. To add to the unhappiness of the situation, huge protests have been held by the public to demonstrate the frustration. Late March 2019 around million people participated in a Brexit march in London (BBC Newshour 2019).

Scotland was also seemingly disappointed with the result to leave and is hungry for independence, even more than before. As of 5th of February 2019, Steven Carrell published an article to The Guardian telling that Scotland is trying to figure out the right time for a referendum to be held on the independence. They do not want the Brexit directly to affect the public's opinion and they want to wait to get some more clarity to the situation. However, this approach could quickly change as the clarity over Brexit has been minimal throughout the months Scotland has waited for, told the deputy of Nicola Sturgeon, the First Minister. (BBC 2019 f.)

Yet still it is believed that the result will be affected by the outcome of Brexit. In 2014 referendum already 45% wanted independence, so very likely Brexit will be the final trigger driving that number up to 50% and over, in the possible future referendum (Carrell 2019). The independence would allow Scotland to look after their own resources, focus on their own good as a nation and have their own policies regarding for example immigration. Downsides for Scotland being uncertain currency as well as decreased influence on things going on in the world (Edinburg Evening News 2014). Right now, the Scottish secretary, David Mundell is prioritizing and focusing on stopping no deal Brexit. He has said that having no deal is no good for either, UK or Scotland and he does not want to let come to that outcome. (BBC 2019 g.)

## 4 POSSIBILITIES OF BREXIT

In this section four main options of Brexit will be explained, and the so-called Norway Model is opened up. With the Norway Model a comparison is made between United Kingdom and Norway as well as with European Union and European Economic Area. Will the best option be to choose one of the four options or is remaining in the ETA the right way to go? Could UK ever be like Norway and adapt the Norway Model? Once the main options are gone through, there will be the alternatives for trade introduced.

### 4.1 Possible Deals

Brexit is coming. The public vote to exit the union. Predictions have been made and the economy is in question. Now, the next step is to decide how to do the exiting. How to exit the European Union so that as little future problems are created in the process. What is the much scared “No deal Brexit” that the government warned about? Are there any options in between or something to satisfy everybody?

#### 4.1.1 No Deal

No Deal is exactly what the name has to say. It means UK exiting the European Union without a deal. Theresa May has stated that this for UK is not a proper option and that the country would rather remain in the Union than leave if this was to be the only way out. Regardless of what May has said the public have gotten warnings on the no deal Brexit as negotiations were not able to set common ground. As an option this is not good to either party due to many reasons but yet it is becoming more likely by each passing day. (Sandhu 2019.)

The MPs have voted to block the no-deal Brexit as well as passed on an amendment which would stop the exiting process in case of no deal. Legally the vote is not binding but it is to pressure Theresa May to find common ground deal with the EU. Regardless of what May has said the public have gotten warnings on the no deal Brexit as negotiations were not able to set common ground. As an option this is not good to either. No one is wanting the possible worsening of political relations. (Sandhu 2019.)

For the UK this would mean exiting without the 21-month transition period. No transition period means leaving overnight. Being a part of the Union one day and not the next day. The free movement of labour can be said good bye to.

UK gets to set their own rules and regulations regarding entering and exiting country not to mention about full on immigration. The country would also have to give up the European Court of Justice which would in theory mean the laws would also change overnight. There are doubts if UK would be able to fill up the lawbook holes by setting its own laws in such a short notice. The citizens would immediately need to adapt to the new system with no further announcement. (Sandhu 2019.)

The trade with EU would get new tariffs, duties and taxes applied to the products. Delays and issues with logistics would become an issue quickly and therefore there is the chance manufacturers move their production and production units out of UK to avoid this. In the no-deal scenario British products can get rejected as new certifications and authorizations may appear. Some EU subsidies will be lost but the EU annual contribution will no longer need to be paid. This saves UK £13 billion a year. No solution to the lot talked about Irish border issue is given in this case, but an extreme border control could be expected. (Sandhu 2019.)

With no deal UK would be given the full permission to its own immigration policy, leaving foreign people working in the country and Brits working abroad with severe uncertainty. British qualifications would no longer be valid in EU countries meaning some people could even lose their jobs. (Sandhu 2019.)

On 18th of December 2018 a meeting of cabinet ministers was held in which preparations for no deal Brexit were discussed (Exchange Rates UK 2019). The Bank of England has published a report comparing no-deal Brexit to the Great Recession (Sandhu 2019). This option is considered to crash the economy and the industries.

There have already been plans on how to evacuate The Queen and other important members of the royal family as well as parliament, in case of Brexit causing chaos in the capital of London. This is simply due to safety reasons. (STT 2019.)

### **No Deal scenario for Business and Trade**

The Government has given some guidelines for the companies regarding how to react in case of no Brexit deal. These guidelines include information on taxation, trade and how to prepare the business in general for UK leaving EU without a deal. To any other scenario these relatively clear guidelines are not provided.

If no deal is settled, UK will get the full power on taxes, which would mean changes in taxation. The tariffs and duties will be also changed upon exiting. EU will start applying their own tariffs to goods imported to UK and vice versa. In the future business will conform to customs procedures which was not mandatory before.

UK wants Northern Ireland to be able to maintain the special trade partnership with Ireland due to the unique and close relationship the countries share. In no deal scenario there will be most likely negotiations with European Commission and EU members on how to do that (Gov UK 2018 a). Importers will need to register for an Economic Operator Registration number and ensure the incoterms used. They need to come up with the right classifications for the imported goods.

The goods will need to be declared to the EMCS and still pay the value added taxes (VAT) on the goods as leaving EU does not mean giving up the value added tax system. The VATs are aimed to maintain as close to what they are now as possible, but some non-specified changes will most likely occur upon the exit. UK business will be able in the future to use the EU VAT validation service but will no longer be able to access the EU value added tax refund system. Instead, UK will start claiming VAT refunds with a system designed for non-EU businesses. (Gov UK 2018 b.)

Exporters need to do their own research on the import country to figure out the duties and in addition to this they need to have the goods exported classified accordingly to commodity codes. The United Kingdom is not planning any instantaneous changes to the EU-made current commodity list and the country is aiming to make the transition as smooth as possible for the businesses. They also need to choose the customs procedure code for the exported goods. (Gov UK 2018 c.)

The cross-border logistics, especially the lorry traffic is predicted to suffer not just from added customs checks causing delays but also from legislative, license problems. In no deal scenario UK lorries could lose the validity of their community licenses. Exiting with some other exit methods the possible risk of losing them is still relative after the likely transition period depending on how the trade deals with the EU are negotiated. The Reality Check team from BBC suggest European Conference of Ministers of Transport permits, (ECMT permits) to be an option for the United Kingdom post-Brexit even when it means not equal liberties to the European Union member countries. Nevertheless, United Kingdom has only limited number of these permits to hand out for lorries, way less than the need is which could and most likely will cause troubles in case Brexit gets to this point. (The Reality Check team 2019.)

EU Commission has also proposed an idea that if no deal was reached, there could be a chance of UK being able to continue the transportation of goods until the end of 2019 with slightly altered terms to those of EU membership (The Reality Check team 2019).

A scheme was announced in mid-March stating regardless of having no deal, 87% of imports would be tariff free. Nonetheless this was told only to be a temporary solution and not yet fully assured. (Hope, Treanor 2019.)

#### 4.1.2 Hard Brexit and Softer Brexit

To explain it the simplest is, the harder the Brexit, the more things from the EU will be given up. Such things to give up are single market, customs union and the court of justice. According to Channel 4 News in Softer Brexit there is still the chance to stay on the Single Market and Customs Union, but most likely UK will have to miss out the new trade arrangements with countries like the U.S and China. Softer Brexit is also a politically hard solution as it may not be extreme enough for the ones who voted out, but nor is it what the ones voting to remain wanted. (Channel 4 News 2018.)

Softer Brexit, as it is the mildest version of Brexit, is the most wanted by the people who first hand wanted no Brexit at all. With this, UK would still co-operate with the European Union, if compromised with immigration issues, single market can be still accessed. By keeping in the Customs Union, the trade could be eased. No hard borders, no irrational tariffs or extra tariffs to keep the fluent flow of factors of production. The main disbenefit is the hardness to sign the so-much-wanted trade deals and that the intensity is not as deep as wanted. Many who voted to leave would be rather disappointed with this option. (Chaplain 2018.)

Hard Brexit is preferred by the part of Brits who voted out. Hard Brexit would take UK fully out of EU and free it from its regulations and policies. Yet this would not be as drastic as having no deal at all. No more single market or customs union. More control over barriers and immigration. By choosing hard Brexit the Independent trade agreements are laid in the arms of UK. By exiting customs union, harsh Irish border is becoming almost a necessity to achieve the needed control over it. (Chaplain 2018.)

#### 4.1.3 Chequers Deal

Chequers deal is a lot talked proposal by the Conservative PM Theresa May. Named after the prime minister's country residence, the deal has already been rejected by many parties (Channel 4 News 2018). The EU openly rejected the offer in Brussels as well as many parliamentary Brexiteers (Slater 2018).

The deal is for common trading rules with a special permission for Britain to strike new trade deals. Single Market would be kept and no tariffs for goods would be set. This would ensure minimal delays in logistics when the exit finally happens. The basic living rights would be ensured but yet, the full free movement would be ended.

It is clear, why this could be called “cherry picking”. May has chosen only the good parts of EU to keep, thrown away the rest and added her own special requests to the deal. Adding this to the equation of United Kingdom already having special conditions when in the EU, it is understandable why this model is so questioned.

#### 4.1.4 Norway Model

Norway model, also known as Norway+ is exactly how it sounds; a model or ideology coming from Norway. It is something that has been proposed to UK to replace Brexit or work as a “plan b” for it. Simon Carswell from Irish Times in his analysis on Norway Model tells how this has been previously a counted-out option due to “not ticking all the boxes for Theresa May”. This meaning not offering everything wanted from Brexit, on top of the list getting rid of single market. (Carswell 2019.)

Also, it has been suggested to use the model temporarily until a better solution is found when exiting the EU (Payne 2018). The name however might be a bit misleading as Norway is not the only country following this approach. Other such countries are Iceland and Liechtenstein. Switzerland is not officially a part of either but has been given the rights to be a part of the single market (Gov UK 2019 a).

The idea of Norway Model is fairly simple: To be a part of European Economic Area (EEA) and European Free Trade Association (EFTA), but not a part of EU. This would mean still trading with European Union, being a part of single market and agreeing to EU trading agreements. EFTA also offers free trade deals to non-EU countries such as Mexico and Canada. However, if wanted to be a part of EEA, the country needs to be either an EU- or EFTA country (Payne 2018). For United Kingdom this would mean leaving EU, joining EFTA and then become a part of European Economic Area. Adam Payne also states in his article for Nordic Business Insider that Norway model would be the least economically damaging form of Brexit according to previous research. However, by adapting to this UK would not have as much say in the policies and legislations as was wanted with Brexit in the first place.

For immigration sake, people would be ensured the four freedoms, including the free movement of labour. Only way an EEA country can refuse these four freedoms is if the country goes into a serious crisis in which case article 112 of EEA agreement allows an

exception. As immigration and protecting local jobs is one of the driving factors of Brexit, this is arguably a feature to take in consideration.

The Norway model can be seen as a solution for the UK-Irish border; however, customs issues may arise as UK would be forced to sign separate agreements defining customs to each trading country (Payne 2018).

With this model UK could get rid of European Court of Justice, Common Fishers policy and Common Agricultural policy which have been the absolute “no no’s” for Brexiteers (Payne 2018; Carwell 2019).

The Prime Minister of Norway Erna Solberg addressed that co-operation with Britain is wanted and welcome, but she also added “but to enter into an organization which you are leaving is a little bit difficult for the rest of us” (Payne 2018). The comment is very good and relevant as she must not be the only one wondering this.

### **Differences of EU/EEA**

All EU countries are also members of European Economic area but not all EEA countries are members of European Union as explained in Norway Model. European Economic Area agreement binds together EU countries and EEA/European Free Trade Association countries.

Together they form Single Market which is supposed to strengthen the economic relations of the countries by reduced tariffs and -barriers. EEA area also have common laws and regulations they follow but the members are not required to be part of other EU policies such as European Monetary Policy, Customs Union, Common Trade Policy etc. EEA do not have a say to the EU laws. EU could be considered as a bigger whole and EEA being a fragment of it with a few additional members. (Kenton 2018 b.)

The European Economic Area incorporates the “four freedoms” being free movement of persons, goods, services and capital, agreement. These were originally signed as the White Paper in Rome in 1957. The member states also operate together with educational and social policies, R&D, environmental issues and customer protection. EEA countries are obligated to pay contributions to European Union, but they are less than EU member state contributions. (Kenton 2018 b.)

### **Differences of UK and Norway**

When talking about Norway Model, an actual used and adapted economic model is being discussed. To understand better for what kind of economies this model is working for, a

comparison of Norway and United Kingdom is made. This gives perspective on whether this model could be efficiently utilized by the UK as well.

There are multiple features that separate and unite the two countries. Most obvious one being the size Norway being 385,203 km<sup>2</sup> with the population of 5,258 million as of 2017. United Kingdom is remarkably larger not in size but in population being 242,495 km<sup>2</sup> and having the population of 66,03 million in 2017. Gross domestic product of Norway is 398,8bn USD and the GDP for United Kingdom is 2,622 trillion USD. These two however are hard to compare as the population is so much larger in the UK.

Norway has also other factors on its side compared to UK. It is geographically well placed, leaving little distance to some its closest trading partners being Sweden, Denmark and the Netherlands. Number one trading partner however for Norway is UK (Workman 2019). Gravity Model suggest that the trade is bigger in neighbouring countries, where the distance is smaller.

The Netherlands in addition to Finland have been in growth in trading with Norway by +29,7% and +26,7% in 2018 according to Word Top Exports (Workman 2019). This is again showing a good sign of strong trade in countries near-by each other.

Listed at the bottom of the important trading partners were Japan and South Korea. The surplus of Norway overall trade went up 114,9% in 2018, resulting to 35,3 billion USD. (Workman 2019.)

United Kingdom's most valuable trading partner is the U.S making 13,4% of the overall trade. Next up is coming a long list of EU countries such as Germany, France, The Netherlands and Ireland. From this it can be understood why better trade deals with U.S are wanted on the behalf of UK, but still half of the important trading partners are EU countries. The loss would be major if the trade between UK and the EU member countries was to suffer. From the countries listed by Word Top Exports, it can be counted that the trade amounts to 194,6 Billion USD when counting in Switzerland's part of 20,5bn USD. (Workman 2019.)

Main export products for Norway are mineral fuels 62,2% of exports, fish 9,5% of exports and machinery 3,7% of exports. The export of two of the top products have gone up since 2017 as follows: Mineral fuels 30,3%, Fish 5,7%. (Workman 2019.) The top 3 Exported products for UK are Machinery 15,3%, Vehicles 21,1% and Mineral Fuels 8%.

From this we can see that besides vehicles, the production is very similar to Norway, but much more divided. Therefore, the country is less dependent on one specific product group. This likeness is most likely to similar natural resources. (Indexmundi 2019.)

Mineral fuels have gone up by closer to 16% for UK as an export product. This does not only mean that there is already competition in EU of these products, but also, when UK leaves, the loss for EU production wise is not that big. This is as there is no product group properly leaving the market. Even if the British cars would be somewhat lost, Germany is still there producing 257,2bn USD worth of vehicles annually. These factors make U.S. even more tempting as a market for UK especially when Norway is yet not trading with them, or at least not as intensively as the UK (Workman 2019). By any means, this does not rule out other potential losses to the EU such as decrease in overall production levels and the economy.

In addition to production, trading partners and geography other factors should be discussed. For example, United Kingdom at this moment is only properly a member of European Union. Norway on the other hand is a member of EEA, Scandinavia, Fennoscandia and the group of Nordic countries. Even if the last three cannot be classified as unions, they are still binding the countries tighter together geographically.

Psychologically, sense of belonging has a massive impact not only on things like one's motivation and happiness but it also gives strength on relationships and communications. This is told by Ph.D. Karyn Hill in an article she wrote in Psychology today in 2014. Generally, the scale of this kind of psychology is much smaller, an individual, but in the end, each country is run by individuals and the author believes this theory can also be somewhat applied to this. When felt like belonging in a group, the involvement and investment in it is increased. This could be reason why the Nordic countries stick together.

Also, these countries have similar cultures which helps with intercultural awareness and – cooperation. Gravity Model also indicates that language similarities boost trade as well as common history. The languages of especially Norway (Norwegian), Sweden (Swedish) and Denmark (Danish) are very alike. Iceland (Icelandic) and Finland (Finnish) being somewhat of exceptions language wise. In Finnish schools, Swedish is studied and in Sweden Norwegian is thought in school to raise linguistic skills of individuals.

Even if English, the officially spoken language in the UK, is widely used it is still not the same as speaking or understanding someone's native language in their country. Willy Brandt, a former German Chancellor once said "If I'm selling to you, I speak your language. If I'm buying, dann müssen Sie Deutsch sprechen" – meaning when selling internationally, not everyone speaks the same language, hinting especially to English speaking companies. (Davey 2010.) This clearly applies to sellers of small boutiques in countries with high tourism. Many times, it can be heard the seller asking, where a person is from

and then hitting them with a sentence in their language to make a good impression and to increase the possibility of sales.

## 4.2 Possible trading scenarios

The following are suggested models and scenarios on how UK could proceed with trade post-Brexit. The Norway model can also be considered as a trade option but many labels it as a model for much more than just trade such as political relations.

### **The Canada Model**

The Canada Model is called Comprehensive Economic and Trade Agreement, CETA for short and it is believed by some that this template could also be used with UK as they exit. CETA is an agreement for reduced tariffs, duties and quotas but it is not the Single Market nor Customs Union.

In theory this could work for UK but keeping in mind that only a fraction of Canadian trade is done with EU compared to UK and that the trade product wise is very different between these two countries. This could cause that the benefit would not be as mutual in Brexit's case as it is with Canada's as it would still limit UK more than having no deal at all (Robertson 2018). This model is not preferred by the Prime Minister May.

### **The EU-UK Trade Agreement (FTA)**

This is exactly how it sounds. European Union and United Kingdom would go through rather negotiations to come up with a trade agreement with suitable conditions for both. This process is predicted to be lengthy and time consuming.

Having a trade agreement would most possibly benefit both but yet it is considered conflicting with the decision to leave by some sources (Economics Online 2019).

### **The WTO Scenario**

In the so-called WTO scenario, the trade would be bonded to the rules and regulations of the World Trade Organization more specifically to the Most Favoured Nation (MFN) - rules (Economics Online 2019). This means if UK was to get a better deal than EU, European Union would then be entitled to the same offer which pretty much guarantees United Kingdom cannot really achieve anything that much better with trade deals with many countries. Liam Fox, a trade secretary stresses, that UK could very possibly just "copy & paste" EU FTA deals which were done years ago as they are something, they have been going by for ages by now. This was said in a select committee meeting in 2017.

Nevertheless, as the agreements are so old, already minor updates and changes to the terms could trigger MFN even if it is not intentional (Oppenheim 2017). The organization believes each country should be treated equally when it comes to trade and therefore UK would lose their free access to the EU and the influence on their rules (Economics Online 2019).

UK could also face issues with the “rule of origin” principle, applied to all free trade agreements, with meeting all the varying thresholds. With EU the issue could be solved somewhat easy compared to the unavoidable situation in which the third parties step in to the equation. (Oppenheim 2017.)

### **The Unilateral Free Trade Scenario**

Placed to the bottom of the list of scenarios by many forecasters, this approach is used by Singapore and New Zealand. This is a version of the WTO scenario as in this UK would agree tariffs through the World Trade Organization. The tariffs agreed however are not mutually reduced by trading partners. Out of the trade options, this is believed to be the least beneficial for the United Kingdom. (Economics Online 2019.)

## 5 THE IRISH BORDER

The Irish border, separating the Republic of Ireland and Northern Ireland is discussed a lot. It is also known as the Backstop. The DUP, The Democratic Unionist Party in Northern Ireland, and Tory Brexiteers have been the ones the most concerned over the Backstop (BBC 2019 k). Ireland would remain it independent self in the EU while the neighbouring Northern Ireland would be leaving the union alongside the rest of the United Kingdom.

There is the fear of a harsh border that could possibly complicate the trade of the two and block the easiness of the gateway to European Union. This means that the border would be the point in which the goods in due course cross the line of EU and UK. All parties, the EU, the UK and the Republic of Ireland agree that they do not want a hard border, yet they have not come up with terms for the customs checks. (Channel 4 News 2018.)

Irish border is one of the things that UK is struggling to the most getting a solution to and agree deal over. BBC listed numbers which indicated well how essential the Irish border and maintaining it as easy as possible actually is. 45 million vehicles crossed the border in 2018 and 8.8 million was the count of goods vehicles.

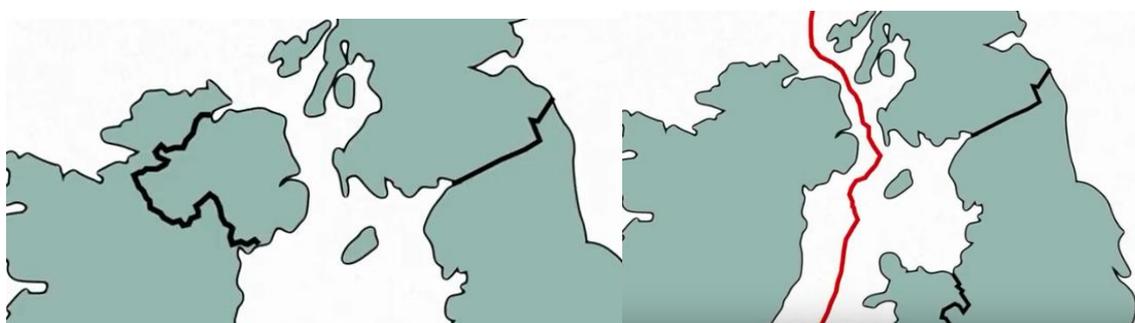
Trade wise £11.4bn was how much the exports from Northern Ireland to countries outside of UK was worth. The trade is also intensive between Northern Ireland and the GB, summing up to £14.6 in 2016, accounting to 19% of the sales of the United Kingdom. The trade between Northern Ireland and the Republic of Ireland in 2018 was two billion in Euros. Over £400 million worth of spending in the Northern Ireland by people from the Republic of Ireland in a 12-month period. Over 60% of that was spent in the border area.

Almost 75% of households located in the border region also shopped in Northern Ireland for groceries. Speaking of groceries, 64.5% of Northern Irish agri-foods are exported to the United Kingdom and 19,1% to the Republic of Ireland. Meats are an important export and import product to and from Northern Ireland, summing up to hundreds of millions of pounds each year. (BBC 2019 h.)

Estimations state that the lorries crossing the border could experience 4 minutes delays caused by custom checks each if the issue is not solved properly. However, French authorities have addressed their concern on that already a 2-minute delay could cause almost 30 000 lorries and other vehicles queueing on the border post Brexit (O'Carroll 2019).

European Union negotiators have addressed wanting a customs point to the border to gain some control over what enters the EU and their single market and customs union. This could mean checking the goods right then and there on the border or using technological surveillance to do that. An actual wall or a fence has been brought up but yet, it is not something that people want. According to Channel 4 News, for many it would stand as a reminder of the violent past of “The Troubles” and maybe eventually even reactivate the problems of the past times (Channel 4 News 2018).

In no deal scenario, there is what EU wants called the “back up plan” or “backstop” for the Irish border. This means even if no deal is reached there is still an agreement on the border. This would mean pushing the Northern Ireland border back to the sea border of Ireland and Britain to maintain relatively easy border as illustrated in the pictures below (Figure 11).



*Figure 11 Irish Border. On the left the border is in between Northern Ireland and the Republic of Ireland vs on the right it is pushed to the sea border (Channel 4 News 2018)*

Unionists however are against this idea as it would mean Northern Ireland getting treated specially. Theresa May has proposed the idea of UK remaining in some kind of customs union if by that the harsh border can be avoided (Channel 4 News 2018). She has agreed to this and its terms in a what is called “last resort” way to protect the UK-Republic of Ireland trade and respect the Good Friday agreement. The agreement is still lacking the Parliamentary agreement from Britain before it can be said to be legally binding to either of the parties. The vote was supposed to happen in December 2018 but has since been postponed. (Campbell 2018.)

## 6 THE ECONOMY AND TRADE

To understand the future, the past and the current need to be understood. 80% of British economy comes from treatment services of Single Market (Payne 2018). But if this is so, why would UK want to get out of something so essential? Is the reward worth the risk for the country?

The researches of Her Majesty Treasury (HMT), Institute of Fiscal Studies (IFS) and National Institute for Economic and Social Research (NIESR) have concluded the economic risks of Brexit to outweigh the possible benefits. Even when the economic forecasts and econometrics are barely ever precise, in a poll by Ipsos-Mori 600 economist were against Brexit (Economic Online 2019). The Institute for Fiscal Studies especially emphasis that the maintaining of steady economic growth is risked by Brexit.

The Sky News tell in an article how Brexit is a “cloud of uncertainty” over the economy. The United Kingdom 'crashing out' from the European Union has also been compared to a recession. (Kottasová 2019.)

In this section the British economy is covered alongside with the forecasts. The trade, trading partners and opportunities will be also looked at. Also, at the end of the section there is an explanation on what would Brexit mean for a few important industries.

### 6.1 Economy of the United Kingdom and Forecasts

Gross Domestic Product of UK is 2,622 trillion USD (Office for National Statistics 2018 a). As for the third quartal of 2018 the growth was 0,6%. For the past years the growth has been fluctuating quite a bit, but the size of the UK economy has been on a relatively stable rise since 2010. Still the economic situation is even in more risk post Brexit due to the toll of global financial crisis. (Kottasová 2019.)

When it comes to the inflation rate of UK is currently low. The consumer price inflation is 2,1% but is predicted to grow. According to Financial Times tell that the vote to leave EU dropped the value of Pound which also caused a slight rise in the general inflation rate. However, it has been theorized that inflation goes hand-in-hand with employment. (Jackson, Strauss, Bernard, Pearson 2019.)

The Phillip's Curve suggests that when inflation is low, unemployment is high and vice versa. The employment of UK is in constant increase and has been since 2010, now being 75,8%. Financial Times data shows that the unemployment rate of adult work force has been in drastic decline since around 2014 and currently is 4%. (Jackson, Strauss, Bernard, Pearson 2019.)

In 2018 there were 2,25m other EU nationals working in the United Kingdom which indicates there was a decrease of 132 000 in comparison to 2017. The number of non-EU nationals increased by 34 000, bringing the altogether amount up to 1.24m. (Office for National Statistics 2019.)

If the economic forecasts were to be correct, this would also lead to increased unemployment as jobs regarding trade could be reduced (Economic Online 2019). Patrick Minford explained and argued for Brexit in his report for the Guardian was that a large amount of money is paid as subsidies to unskilled EU immigrants. According to him the average being £3500 per adult and by getting rid of these payments by taxpayers the economy would rise. He estimates the full benefit of Brexit being 7% increase in the GDP in addition to the rate of long-term growth. Yet he is not talking about the excessive Governmental spending on the Brexit process and how those resources could be relocated to boost the economy.

In the same article is also included a report from Molly Scott Gato, a spokeswoman for EU relations, stating quite the opposite. She believes that UK does not stand the chance nor has what is needed to stand alone in the globalized market. She enhances the importance of customs union and reminds that the manufacturing of UK is widely foreign-owned and has parts of it done in the EU countries. However according to the report of UK government the UK economy will go down matter what is the deal with Brexit if it is not the exact one requested, and already turned down by EU. If the transition was done with no deal, it could take the economy down by almost 10% in the next 15 years, compared to the situation in which UK would still be in the EU. (Kirby 2018.)

In the future, high skilled labour force ideally would be given special treatment when granting visas. The system is already used for the immigrants coming from outside of the EU. Minimum wage of £30 000 for highly skilled migrants wanting five-year visas is currently under negotiations. In case there was to be a deal, low skilled labour force would be able to work in the UK up to a year at the time. This would be until 2025. (Hunt, Wheeler 2019.)

Nevertheless, the whole economy productivity has been on a stable rise since 1990's besides small fluctuations. Annual per centage change regarding output per job has been stable since 2010 after recovering financial crisis of 2008-2009. This is rather important to consider as Brexit as its worst has been somewhat compared to the global financial crisis. By understanding how United Kingdom recovered from that, can be estimated how it would react in case of Brexit turning into one for the country. Although, the economy is recovering from the crisis an international comparison shows the progress not being as fast as in many other countries. As seen from the graph below, from the countries listed only Italy is reviving worse in comparison to United Kingdom (Figure 12).

Industrial production output has been going down quite a bit after fluctuating for the past few years. Same trend can be seen from the manufacturing output. Manufacturing activity experienced a slight dip late 2018 but recovered a bit since the beginning of 2019. The peak was in mid-2017 (Jackson, Strauss, Bernard, Pearson 2019.) Mid-2018 report estimates that Brexit has ripped around a per centage of the whole national income which has led to less household consumption (Giles 2018).



Figure 12 Productivity growth before and after the crisis (Financial Times 2019)

Interest rates of UK shot down drastically around 2009 and have stayed low ever since. Currently the base rate is 0,75%. Public sector net borrowing has been going down since 2010 but public sector debt has been on the rise since 2005. The UK government receipts has been a zigzag since late 2010, but a slight stabilization can be indicated after 2015. (Jackson, Strauss, Bernard, Pearson 2019.)

As of mid-2018 the estimations state that Brexit had already eaten up ranging from £20bn to £40bn from the UK's GDP, meaning 1%-2% of the whole British Gross Domestic Product (Giles 2018).

Mark Carney, the governor of The Bank of England, warns in his speech in London that no Brexit deal would possibly cause an economic shock. He tells the uncertainties are holding back businesses from making decisions and slowing down trade. Carney adds: *"Although the economic and financial imbalances in the global economy do not yet appear to contain the seeds of their own demise, global momentum is softening,"*. (BBC 2019 i.)

Theresa May's economic agreement draft predicts the country's economy to fall 3.9% by 2030. This 3,9% equals to £100bn. According to Financial Times this loss is equivalent to £44bn of suffering of the biggest sector of British economy. Public Finances could

experience £63bn worth of damages by 2030 compared how the situation would be if Brexit was not to take place. (Malhotra 2018.)

On the global level, forecasts on Chinese GDP decreasing, led The Bank of England estimating that 3% decrease in the Chinese Gross Domestic Product would cause GDP of the UK to fall 0,5% as well as the GDP of the U.S and Euro area (BBC 2019 i).

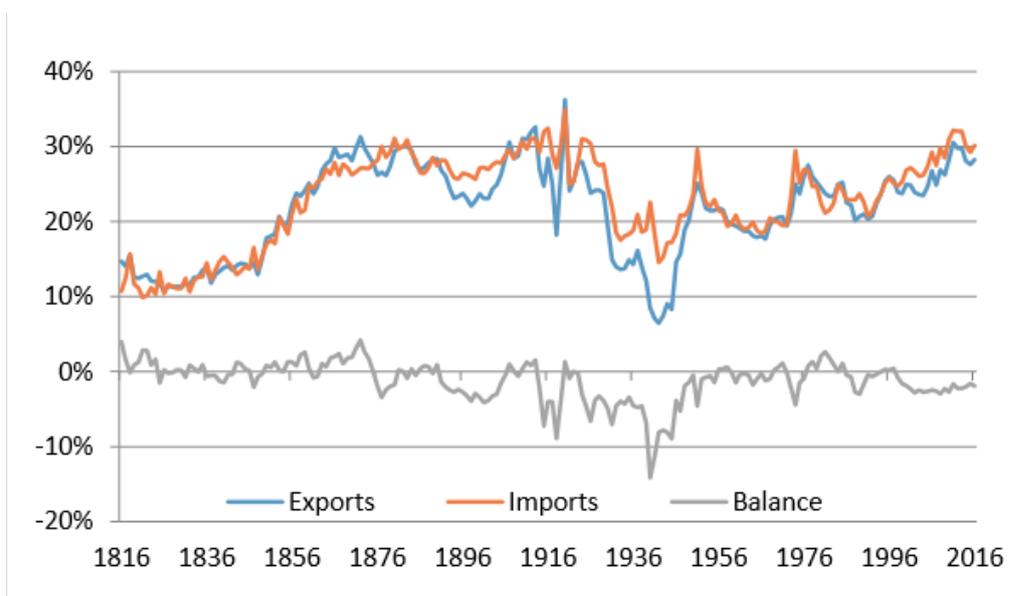
It has been said that under any Brexit scenario the British economy will decrease. UK Treasury chief has said that looking just economics, staying on the single market would be more profitable for the country. Second referendum supporters have said it could be smaller by 4% but the estimates start from 0,75%. Overall damage after 15 years has been estimated to be 7.7% fall in the economy.

These estimations were based on the current state of trade and immigration. In this estimation the immigration was remained stable but if that was to take turn to the worse, so would the overall fall. However, if the PM May was to get a good deal with the EU and negotiate barrier free border for the Irish, there might even be a slight increase in long term. (Kottasová 2019.)

## 6.2 Trading partners and trade

According to the White Paper of trade, published by the Government, trade has always been an important part of the UK's GDP. It accounted around 30% of it as of 2016 as can be seen from the graph underneath (Figure 13). (Gov UK 2017.)

The openness of trade has risen from less than 30% to over 60% as the UK joined the European Union. It has been predicted that the most likely increment in trade cost will appear as decrease in the country's output and GDP. The Gross Domestic Product and productivity will be further lower due to the likely decrease of foreign direct investments. At the same time UK will be able to relocate the money previously paid as EU contributions. (Economic Online 2019.)



*Figure 13 Importance of Trade to the UK Economy as per centage of GDP (Gov UK 2017)*

When talking about international trade, often times comparative advantage is mentioned. Comparative advantage means that a country is able to carry out a specific economic activity such as producing a certain product with a smaller opportunity cost compared to other factors and countries (Kenton 2018).

Graham Stuart believes that the comparative advantage of UK is publishing. Writing in the world unifying language of English comes naturally to the Britons. According to him UK is the home of 10% of the academic publishers of the world, bringing in the intercontinental returns of £1.1Bn. Publishing is understandable as it means they can export something that is understood so widely in the world but yet is coming so effortlessly to them.

By publishing they are in theory exporting the English language. The export is supported by the Government in a form of background conditions and assistance on fair programs and events. There are always risks when exporting a product such vulnerable to copyright and theft – issues, but yet the laws and overall management regarding intellectual properties in the United Kingdom are top notch. This at least is the current state of the situation but who knows how they can change upon the exit. In the article the exact export strategy is left rather untold beside a few less relevant insides shared but Graham Stuart does state to believe in the good post-Brexit prospects. He sees the new trade agreements more opportunistic than remaining the EU membership. (Stuart 2018.)

Regardless of the publishing, the sources argue that the UK does not have another, as evident comparative advantage, especially in the agriculture. This could and most likely will create extra problems to British economy in the transition process if UK decides to go with unilateral free trade agreements after the exit. (Economic Online 2019.)

Trade balance has had a clear division on trends since 2005, depending on if goods or services are in question. The balance of trade in services has been increasing and is near reaching £10Bn. Balance of trade in goods has experienced the opposite effect and is getting closer of -£10Bn as seen from the statistics (Figure 14).

Current account balance has been in decline, recovering a bit in 2010 but since came down by a lot. At the moment slight decrease can be indicated but has yet not gone back to the rock bottom of 2015-2016. Trade balance of non-EU regions has been stable besides a minor increase in 2015 but EU28 has been getting lower since around 2012. A slight increase can be seen in 2017 but nothing major. (Jackson, Strauss, Bernard, Pearson 2019.)



Figure 14 Balance of trade (Financial Times 2019)

A lot of UK's trade is done with the EU/EEA countries, both ways, import and export as can be seen from the Figure 15. U.S. and China being the outsiders as non- EU/EEA members (Figure 15). U.S and China have been interesting UK for a while and when looking and the per centages it is clear to see why. U.S makes 13.5% of the UK exports and 17.4% of all its imports. China has it vice versa; 12.7% of imports and 17.8% of exports as can be detected from the Figure 15 showing the main trading partners of the UK.

(Europa.eu 2019 a.)

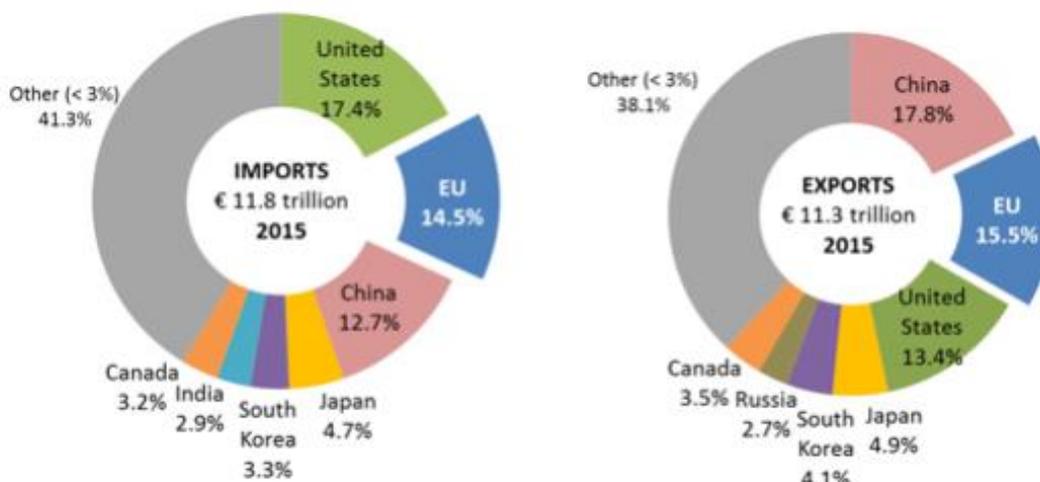


Figure 15 Traders of the world by per centages (Europa.eu 2019 a)

Figure 16 illustrates the exports to EU and Non-EU countries as well as the total exports 2010-2016. From it can be seen that most of the exports have been done to Non-EU countries despite of the main trading partners being EU members.

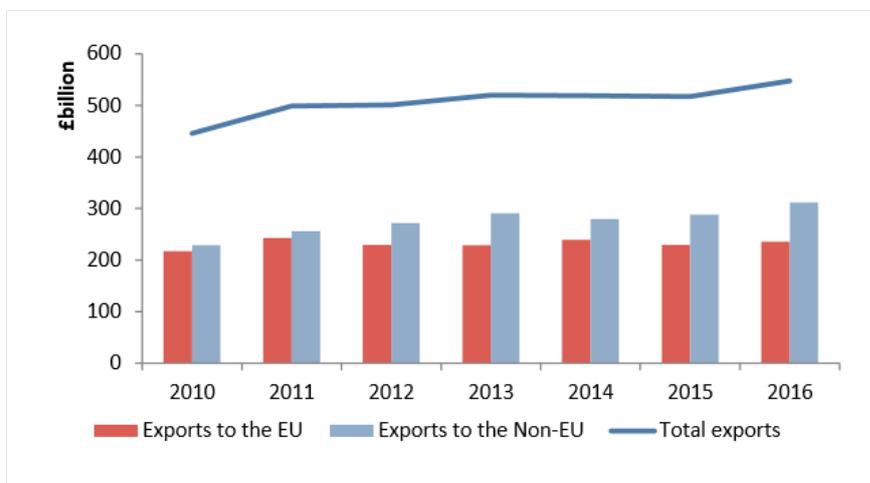


Figure 16 UK exports, 2010-2016 in £billion (Gov UK 2017)

Figure 17 shows the opposite with British imports. The gap between the two categories has grown since 2010. With the Britain's imports the exact opposite is detected. As the Figure 18 illustrates, majority of the imports are coming from EU member states. Yet the growing gap between the non-EU and EU states can also be seen with this one.

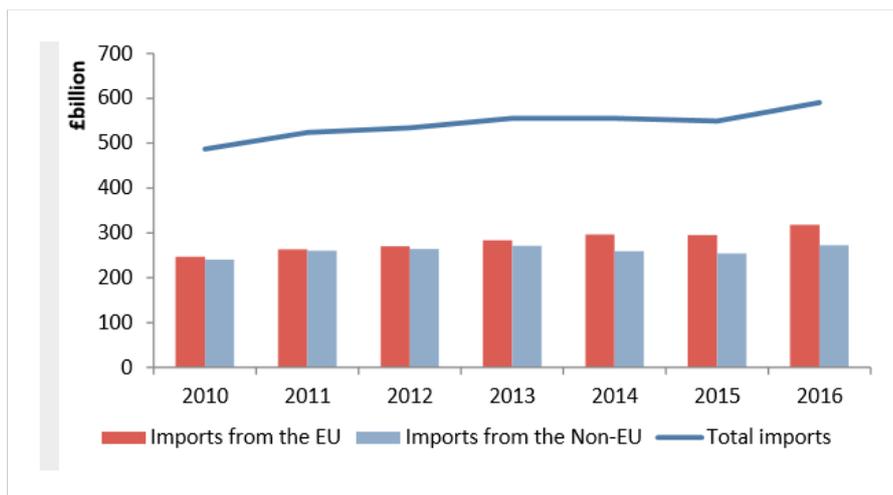


Figure 17 UK imports, 2010-2016 in £billion (Gov UK 2017)

## UK's top 10 trading partners (2017)

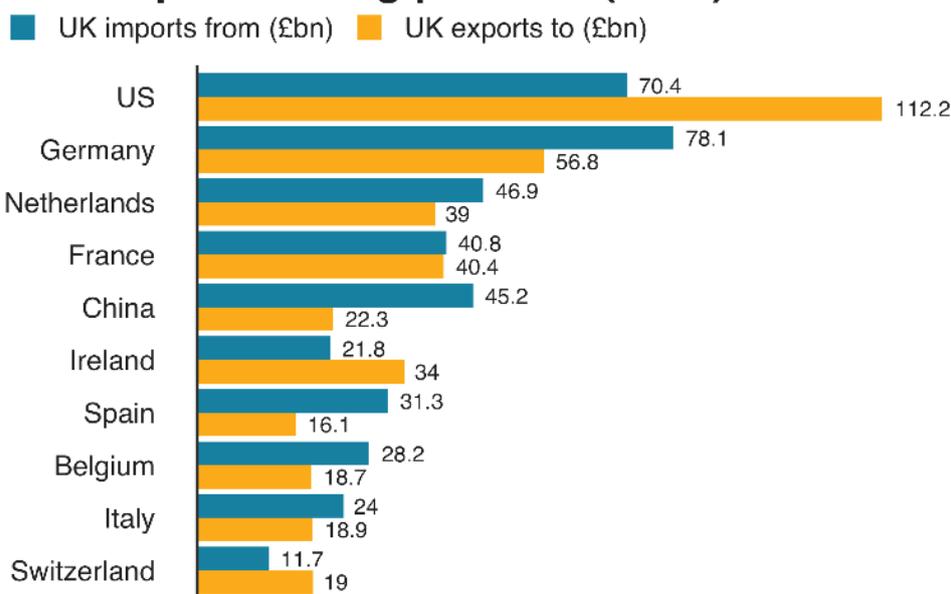


Figure 18 UK's top 10 export / top 10 import countries are countries measured in £ in the correct order from biggest to smallest (BBC 2019 i)

The United Kingdom's top ten export- and import goods can be seen from the table below (Table 4). UK main top export and import goods is the same, industrial machinery. Industrial machinery equals to 65,417,834,028 USD of British exports and 79,975,723,326 USD of their imports which tells the import for these types of goods is slightly bigger than export.

Next up as the second largest import/export group is motor vehicles and parts and again with these goods the import is bigger than export as can be seen from the same figure. Oil and mineral fuels the UK exports for over \$35 000 000 000 worth and they come in as the

third most exported goods in the United Kingdom. The export of British pharmaceuticals makes over \$32 000 000 000 of the country's exports making it the fourth most exported good category of the UK. The import of it however placing to number six of the ten most imported goods of the UK. (Global Edge 2019.)

Pharmaceuticals in specific might experience scarcities in supply chains post Brexit and therefore the distribution of them might suffer. This effect has already been seen in the UK during the Brexit process (Breen, Yaroson 2018). This could cause some changes in the placement of pharmaceuticals on the listing in case the distribution takes a major hit.

*Table 4 UK's top 10 export / top 10 import goods measured in USD, in the correct order from biggest to smallest (Global Edge 2019)*

HS Code	Export USD\$	HS Code	Import USD\$
(84) Industrial Machinery	\$65,417,834,028	(84) Industrial Machinery	\$79,975,723,326
(87) Motor Vehicles & Parts	\$53,428,434,901	(87) Motor Vehicles & Parts	\$73,223,553,853
(27) Oil & Mineral Fuels	\$35,028,039,832	(85) Electrical Machinery	\$59,804,858,399
(30) Pharmaceuticals	\$32,716,007,315	(27) Oil & Mineral Fuels	\$51,655,419,456
(71) Precious Stones & Metals	\$32,086,039,046	(71) Precious Stones & Metals	\$49,017,329,634
(85) Electrical Machinery	\$28,153,417,025	(30) Pharmaceuticals	\$33,095,753,098
(88) Aircraft	\$20,536,970,388	(39) Plastics	\$18,383,270,558
(90) Precision Instruments	\$17,946,338,551	(90) Precision Instruments	\$17,731,487,174
(99) Items nesoi	\$15,708,572,224	(88) Aircraft	\$14,591,458,917
(39) Plastics	\$11,553,085,882	(99) Items nesoi	\$13,496,584,636

The Gravity Model suggests that distance is an essential factor in international trade. The less the distance is the more intensive the trade is. The model is used as the foundation to economic forecasts by forecasters.

The least distance UK has to the EU countries, which could be causing the intensive trade in between in addition to the common union. Some theorists do argue the distance in Gravity Model becoming less relevant factor due to the technological development. Regardless of this statement, Tejvan Pettinger from economishelp.com claims UK will most likely suffer post-Brexit if quitting the trade with the neighbouring EU members. (Pettinger 2017.)

The same model also states that shared history, size of economy and common consumer preferences affect trade (Pettinger 2017). UK has their past with colonies, but it also has a

strong past in the EU and with the EU member countries. In the EU the economy sizes are relatively on the same level with each other and the UK. United Kingdom's goal to have trade agreements with U.S and China is conflicting with a lot; especially with distance, size of economy.

UK's GDP is just a fragment in comparison to the U.S and China. The GDP of the U.S is over 19bn USD and China's around 12,24bn USD as of 2017 which indicates the clear difference of all three economies. Even if some economists argue with the relativity of Gravity Model in the modern world the Office for National Statistics says that for the UK distance between trading partners is important and proves it by stating that their trade is the most intensive with Ireland and U.S being a 'special exception'.

Donald Trump Tweeted after the no Brexit deal vote declaring his interest in having a trade deal with the United Kingdom. In the Tweet he says: *"My Administration looks forward to negotiating a large-scale Trade Deal with the United Kingdom."* He also tells the potential is 'unlimited' (Hope, Treanor 2019). U.S has great potential to trade more intensively with the UK as it is already UK's most valuable trading partner with much growth potential. Some of that potential is still taken away due to the increased protectionism in Trump's America. Donald Trump has informed wanting to support domestic production and local operations and he is going as extreme as building a wall to control immigration. (BBC 2018 c.)

There is the chance of this intensifying even more and via that cutting UK out as well or limit their exports to the country. Another much wanted trading partner was China which is also a good choice for UK. However, there are a lot of political tension between China and the United States. That is also called a trade war (BBC 2018 c). Who knows what happens if UK was to sign with either one and as kind of a statement, the other decides to limit or end trade with United Kingdom? UK would be taking a risk by in any way placing itself in the middle of the situation.

The Gravity model also emphasizes that the consumer preferences, the level education and -technical development (Pettinger 2017). According to Relocate Global the level of education is higher in the UK when compared to the United States. The UK has more focus of examinations when The United States' education is more generalized. In the U.S. the students graduate on the education year 12 which equals year 13 in the UK. (Global Relocate 2018.) In the UK students also go through a work-based training which is not something done in the U.S or China all which can be seen from the table below (Table 5). In China the school days are long, and it is argued the system puts much more pressure on the students compared to the Western education. In the Western education system

individual thinking and creativity is enhanced over the close to perfectionistic performance like in China. (Wickman 2019.)

*Table 5 Educational differences in countries (Wickman 2019)*

Age	China	Australia	UK	U.S.A
1				
2				
3				
4	Kindergarten	Kindergarten	Nursery School	Pre-School
5	Primary School	Primary School	Primary School	Primary School
6				
7				
8				
9				
10				
11				
12	Middle School	High School	Secondary School	Middle School
13				
14	Senior High School	Senior High School	Work-based Training	High School
15				
16				
17	College or University	University	University	University
18				
19				
20				
21				
22				

Global Innovation Index have published results for 2018 from which it can be seen that out of the three, the most innovative country is the UK with the innovation index of 60.10, following the U.S, 59.80 and lastly China with the index of 53.10. Technology and innovation go hand-in-hand and therefore can be said that all of the countries can equally access modern day technology as an economy in civilized areas. (Global Innovation Index 2019.)

So far United Kingdom has agreed to only seven trade deals. Seven is not even a fourth of those 40 they are having with the European Union. These deals are visible in more detail in the table below (Table 6) (Edgnington 2019.) Economist emphasise none of the other ambitious trade deals is in no way guaranteed. All together the main industries could fall 20% trade wise. (Kottasová 2019.)

*Table 6 Nine trade deals UK has signed (Edgnington 2019)*

Country	Date / 2019	2017 Trade Worth	Main Aim of Agreement
Pacific Islands	14 March	£369m	Reduce 80% of tariffs on UK goods
Israel	18 February	£3,9bn	Allow trade to continue as done now
Palestinian Authority	18 February	£25m	Benefits the Palestinian fruit, nut and oil exporters
Switzerland (Partially applied for Liechtenstein as well)	11 February	£32,2bn	Avoid tariffs
The Faroe Islands	1 February	£236m	Maintain low fish prices and the greater choice in variation
Eastern and Southern Africa	31 January	£1,5bn	-
Chile	30 January	£1,8bn	Protect British wine industry

UK has also signed mutual recognition agreements with the U.S, Australia and New Zealand. It is important to keep in mind this is not equal to free trade agreements. With these agreements the goal is to maintain mutual product quality standards and certification systems (Edgnington 2019).

## 7 BREXIT FOR THE INDUSTRIES

As mentioned earlier, one of the ideas of Brexit is to protect domestic operators who are not trading, if everything went according to plan this could be a great deal for them. Foreign operators are either shut out or tariffs, quotas and taxes are placed on their products sold on the domestic market, making the domestic products look much more appealing. This way the domestic operators are also protected from the foreign competition. The model is most suitable for those small business, producing and selling locally as no trade is really needed. However, the larger and, or global industries are taking a toll when and if the tariffs and borders are applied and the trade process is complicated.

According to DFS's CEO the consumer behaviour and -spending has been affected by Brexit. The uncertainty around the topic has gotten consumers be more careful with their money. The demand on the market has therefore suffered. The chief executive has addressed not being as worried over tariffs as with good planning they should not be a big problem for them in specific. (Hope, Treanor 2019.) Would be rather logical to think other industries have been similarly affected by the negative changes in demand.

Taking a generalized example originally given by Channel 4 News in their video explaining Brexit. Brexit is great news if talking on the behalf of the domestic British operators, having little to no trade. In the example they used a person selling apples. Apples that are grown and sold domestically need no trade, and the logistics are all dealt with inside of the UK. For this seller Brexit would mean the apples coming from the EU would have tariffs applied to them which would lead to either decreased number of foreign apples sold in the market as it would not be profitable for the foreign seller anymore unless something was done. That something being increasing prices so that they cover the newly applied tariffs and taxes. The increased price of foreign apples on the domestic market would most likely make the domestic seller's apples look more appealing price wise to the potential buyer, increasing the sales of those ones. Brexit could take care of the both, the control of competitors on the market and the price competition between UK apples and foreign ones, obviously being good news for these small businesses.

The Labour party leader, Jeremy Corbyn has publicly, in the Commons, called out the Prime Minister for the fuss caused by her actions. Having so many rejections on her side and no certainty of a deal she has drove the UK's labour force and businesses in a difficult place.

In this speech, Corbyn tells that the unclarity has caused lost jobs, cuts and massive confusion to the workers as well as to the businesses. He believes there is no efficient

outcome without a deal on new, separate customs union. He claims that is the best way to secure the local employment and local jobs. In his opinion May has failed listening to the public and the members of the Parliament. (Thelwell, Jackson, Harrison, Seddon, Wallis, 2019.)

For the aviation industry the story is totally different compared to the benefitting local operators. Aviation industry is very dependent on international relations. Before the exit the services are governed by different domestic and EU legislations. Until that UK is still a part of internal market of air services as any other EU/EEA country. The airlines operate according to a treaty of the International Air Services Transit Agreement. If there is no Brexit deal EU and UK need to seek separate permissions from the respective states. If the permissions are not given, the air traffic will suffer from delays and cancellations and inability to operate certain routes.

Not permitting the flights is not a logical interest of any respective state but there is always uncertainty when the deals are not sealed, and the permissions are not yet granted. EU airlines will be needing two permissions; foreign carrier permit and UK safety authorization. The UK airlines will need two as well; Permission from national authorities of states in which they will operate as well as EASA safety authorization. (Gov UK 2018 d.)

Brexit has also affected the share prices of airlines which will be told more about in the “investing and stock market” section of this thesis. The same more or less unfortunate fate could also be faced by the Eurotunnel and the ship- and ferry traffic in and out of the country. In early 2019, BBC published that the Eurotunnel has been given what they describe as in a 'secretive way' an agreement regarding their post-Brexit agreements with future.

Already in the stage of softer Brexit, the aviation industry will have taken a toll but no harsh border lining the UK is necessarily needed. Even if the deal is not yet settled, airlines such as Finnair are preparing for Brexit. As the exit becomes real planes are no longer free to land onto UK airports and British airlines are no longer allowed to European airports. However, for Finnish airline Finnair, the situation is a bit more complicated. Many important routes are flown via London and the company itself is bound to OneWorld Alliance which means it does cooperative flights also with British Airlines (Karismo 2018). Finnair in addition to many other airlines, need to take a step back in time and individually negotiate new deals for aviation traffic.

Brexit is also affecting the stock markets of airlines. This trend is explained in more detail in “Investing and Stock markets” section of this thesis.

Some other global industries are also taking a big hit over Brexit. One of them is automobiles. Tokyo announced on 19<sup>th</sup> of February 2019 that they will be shutting down the plant of UK in 2021, meaning 3500 people are in risk of losing their jobs in the industry. They said this is due to the “unpredicted changes in the global automotive industry” which most doubt not having anything to do with Brexit as the announcement was placed so close to the due exit day.

To these predictions add that also Toyota has noted that the UK manufacturing unit is very reliant of EU trade and in case there are disruptions it would really bother the manufacturing. They added that if there was to be problems, they might have to half the British plant. Earlier in February 2019 Nissan also made cuts and discontinued a car model X-Trail SUV production in the UK manufacturing unit. (Channel News Asia 2019.)

According to BBC, Porsche has joined the other doubtful automobile manufacturers and set out warnings that customers purchasing their vehicles after January 17<sup>th</sup>, 2019 may need to pay up to 10% extra for the post-Brexit duties on deliveries (Hotten 2019). Also, JLR, Jaguar Land Rover, has confessed struggling from the uncertainties caused by Brexit as well as other separate issues which has led 4,500 jobs to be conformingly cut, most of which from the UK (BBC 2019 j).

Pharmaceutical industry is another one at risk due to all the unclarities surrounding the future drug regulations in post-Brexit Britain. Currently there are over 50 different authorities in the EU/EEA area to decide about those issues, the Medicines and Healthcare products Regulatory Agency (MHRA) from the United Kingdom being one of them. Their future role is now unknown, but Brexit will cause them to most likely lose the important co-rapporteur with EMA, the European Medicines Agency.

The UK is expected to suffer from shortages in ingredients and finished products. Also, there is a question whether the British pharmaceuticals will still be approved for retail and hospital use in the EU as legislations and certifications needed may change after the exit. Though it is seeming gloomy for the industry the experts ought to believe there is the chance for unilateral regulations of drugs (The Pharmaceutical Journal 2017).

Finance will be affected by the lack of foreign direct investment which was more closely discussed and covered in the “Economy” section of the thesis. After the 2016 referendum some banks moved their operations out of the United Kingdom.

The construction industry will also be taking a toll over Brexit. The industry is heavily reliant on foreign labour force regardless of the skill level. According to information from Office of National Statistic, one third of construction workers, operating in London are from

overseas. By limiting the free movement of labour, the building costs could increase drastically. 64% of building materials are coming from the EU and nearly the same amount was exported to European Union. Changing the borders and duties and applying tariffs could cause severe shortages and delays as well as increased prices. Already a small delay when it comes to bigger construction sites could cost thousands of Euros or pounds for both, the exporter and the importer. Graeme Warden tells in his article for The Guardian that unfortunately for now, clients are signing off deals and new projects due to the fear of Brexit. The good side of this is, if the cooperation with EU comes to an end, negotiations with U.S and China can be started regarding the materials. (Warden 2019.)

### **Interview on the Construction Industry**

To gain better understanding of the effects of Brexit on construction industry, Bryan Carroll from Masonry Fixings was interviewed. Operating in Northern Ireland, the operations are located right in the middle of many questions, such as the Irish Backstop.

Carroll finds Brexit uncertainties having the biggest negative effects on investments on development. Delays in those seem inevitable. Their operations are very reliant on investors building buildings as construction is essential part of their turnover. He sees that a no deal Brexit would be an *“economic suicide”*. Until the issues surrounding Brexit are solved, this question of investments remain.

On the upside, British companies have started relocating in the Republic of Ireland. This brings more employment and operations into the country, cancelling some of the potential downsides of Brexit.

When asked about legislative and labour issues, there is predicted to be some yet unidentified matters to consider. The company will be able to maintain their CE- markings. This is because UK bodies issuing the markings have according to him already established offices in other EU countries. He is not too worried when it comes to free movement of labour. He believes UK is reliant on the ease of labour movement and therefore even if the current regime might be removed, a new one would assure the easiness and efficient flow.

There have been preparations regarding the exit for the company. The possible delays and increased transportation costs are taken into account when planning the future. The company prepared to the End of March deadline by investing into extra stocks in order to assure as smooth as possible continuing of operations. As there was no exit, but a delay instead this was rather unnecessary in his opinion. However, a similar precaution will most likely be needed once a new exit date is decided, he adds.

When discussing the Irish Border issue, he states that 'no one off the island of Ireland understand'. He tells that even if the border would not be a military border, for many a customs border would still be a reminder of a social division of past times. Also, for some this would be a possibility to recreate that division and unrest. This would then destroy the Good Friday Agreement and create chaos. For these reasons a hard board cannot be the solution on the issue.

Carroll tells that from the beginning he felt like the Brexit vote was "*a vote against the establishment*". He says that now the electorate will see the possible disruption and economic downturn, they will not support it. He adds that this has exposed the fact that there is "*no capable leadership within the UK governing parties*". He states to be now focusing on the factors he can manage and not to be distracted with the issues he cannot.

According to him there is the possibility for a new election and for the second referendum. He believes a second referendum would overturn the decision on leaving. He concludes the interview by saying that in no scenario will they be alone in the hassle and that whatever happens they will adapt to any new situation

## 8 CURRENCY, STOCKS AND INVESTING

The Sterling pound most commonly referred as British pound is a floating currency. For short, the code stands GBP for Great British pounds and the symbol for it is £. The subdivision for the currency is 100 pence. The look of the currency can be seen from the image below (Image 1) (XE 2019). Comparisons in this section are done with Euro currency as it is the official currency of 19 of the 28 EU countries.



*Image 1 GBP Bills and coins (Payments.com 2016)*

Euro was adapted as a part of EU monetary policy for common currency. The symbol for Euro is €, code EUR and the subdivision is 100 cents. European Central Bank in cooperation with European Commission are the ones responsible of maintaining its value (Europa.eu 2018 a). Pictures of Euros are visible underneath the ones of Pounds (Image 2)



*Image 2 EUR Bills and coins (Kahn 2012; Dingoony 2013)*

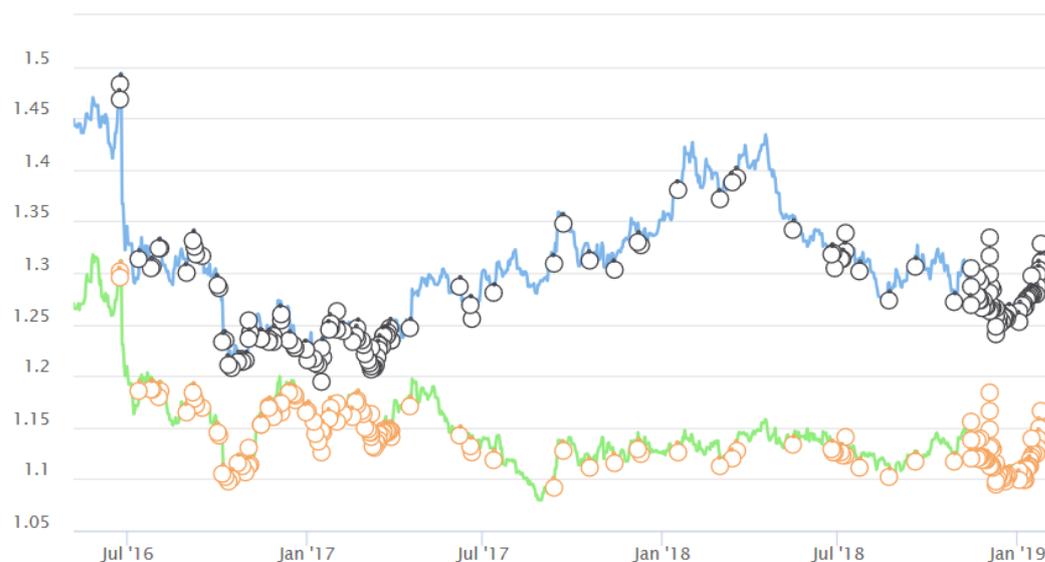
## 8.1 How is it looking for Sterling Pound?

As the Sterling Pound is a floating currency, it means it is responsive to the supply and demand of it and fluctuates accordingly to them. Brexit negotiations is a factor affecting the exchange rate of the currency and can already be seen as fluctuation. When the Sterling Pound depreciates the purchasing power of the currency goes down. Simplified, what this means is that more pounds are needed when purchasing euros and in appreciation the affect is the opposite. (Exchange Rates UK 2019.)

So far, the trend has been that each negation day, the rate has gone down, meaning that the pound has become weak in comparison to Euro as seen from Figure 19. Occasionally, the rate has also gone up during the negotiations when progress has been made. The biggest increasement was in May 2016 when David Cameron won a 12-seat majority on the behalf of holding a referendum whether to remain in the EU or not. The change in the exchange rate was +4,75%. (Exchange Rates UK 2019.)

The biggest downfall of the rate so far due to Brexit was on 23. June 2016, when the referendum results were published, and Cameron resigned. This took the exchange rate down by a whopping 9,09%. (Exchange Rates UK 2019.) This took the Sterling Pound lowest it had ever been in three decades, if comparing to USD (Kenton 2019). The British banks are remaining steady and ready to take whatever Brexit is going to cause, but businesses are struggling to find a plan, especially on the financial side to prepare them for the no-deal Brexit (Exchange Rates UK 2019). Sterling experienced a promising jump

against US Dollar after the no deal Brexit was voted against on 13<sup>th</sup> of March 2019. Against Euro the rate remained flat. Sterling was quick to come back down from the clouds as already the next day, 14<sup>th</sup> of March, the rate had fallen back from those highs. BBC Business writes the previously considered as “safe haven” by Asian investors, pound had now lost its reputation. This is due to increased volatility. (Hope, Treanor 2019.) Bank of England has announced the value could post Brexit fall as much as 25% (Kottasová 2019).



*Figure 19 Brexit historical chart with GBP/EUR, GBP/USD Exchange Rate Moves. Blue: GBP/USD, Green: GBP/EUR. Time period Jan 14, 2016 – Feb 5, 2019 (Exchange Rates UK 2019)*

This all can be due to the uncertainty of the future. The same effect was seen in exchange rate of Euro during financial crisis of Greece on a much smaller scale. Massive debt, excessive public spending and huge tax evasion in addition to other factors were causing a crisis in Greece in 2009 lasting until 2016. The effect on the exchange rate fluctuations were not as notable as 18 other countries were still holding them up for Euro currency. (Investopedia 2019.)

From this can be detected that having only UK using GBP, the currency seems to be much more fluctuated and radical. Is this good or bad, depends fully on the situation, but in the case of Brexit its risky. Riskiness in this case is coming from unconvinced investors and businesses, and unclear trading plans for the future as a non-stable currency will most likely not convince anyone of a better. (Investopedia 2019.)

When thinking about United Kingdom, if British Pound was to take a deep turn to the worse, it would mean a lot of things. British citizens would experience a huge toll as the imported goods got more expensive, in theory this applies to all products coming from

outside of the country, even the basic everyday groceries. Average Londoners especially would have a shock, as already the rents are over 50% higher in that area compared to any other city in the country (Trust for London 2019). The estimation is that on average a person living in London already spends 70% of monthly income on rent and bills alone (Portico 2019). According to BBC the prices have already by early 2019 increased extra by 2% compared to the situation in which they would be if pound was not to have depreciated after 2016 referendum (Nault 2018).

The travel industry is one taking a toll over fluctuating exchange rates. The number of Brits travelling abroad would most likely go down and this is not just for the intense amount of cancelled flights and troubles with aviation agreements. Due to the weak pound Britons would not get the same value to the money as they have before. (Gordon 2019.) EU tourist destinations will most likely suffer from the lowered purchasing power says Ashley Nault from Tourist Review News in an article from 2018 (Nault 2018).

Britons are the largest EU tourism group, resulting up to 120 million nights spent in EU member countries other than UK (Nault 2018). Spain is especially afraid of the loss of British tourists as it is one of the most common British holiday destinations (Barnes 2018). Three years ago, a Brit could get 100€ in Spain for example, with the cost of around £70. Today the number is closer to £90 to be able to get 100€ if disregarding the expenses of exchanging the money. (Johnson, Levell, 2019.)

To put this in perspective, imagining a situation in which a person travelling abroad must exchange the currency and when doing so the amount got back would be minimal. What this means is that the amount of purchases done by domestic operators in foreign markets would go down. The supply of the British pound would go even lower, as the money is no longer flowing across borders as it used to but instead staying in the country. Incoming tourism however might have the opposite effect. The tourist coming into the country can buy more pounds with less of their own currency. With less of their own currency, they can afford more in the United Kingdom. (Johnson, Levell, 2019.)

Jack Gordon wrote an article on how fluctuating exchange rates effect travelling and stated that when the domestic currency, in this case Euro for example, is strong, the travellers from those countries are much more likely to visit places with weaker currency for the sake of saving money (Gordon 2019).

The effect was seen in 2017, when the weak pound lured in record breaking number of tourists who were after good bargains. The number of EU visitors increased by 6% taking the amount of overall overseas visitors up by 5% when compared to the same time slot, previous year (Butler 2017). With the increased number of incoming tourists, their spending also increased as well yet it is still somewhat disbalanced. Britons are spending more overseas in comparison of overseas tourists in the UK even when the pound has been weaker than in years (Partington 2018).

European Union has stated offering visa free access to its member states for Britons as long as UK agrees to do the same. The visa free period is estimated to be 90 days for both sides at a time. Furthermore, the widely used on holidays, European Health Insurance Card (EHIC) is no longer available to the Britons (Hunt, Wheeler 2019.)

On a larger industry scale, internationally operating businesses would have hard time reaching the level competitiveness recommended in the UK. This would not be just because of weak pound and lowered purchasing power but also in case of just intense fluctuations. It can be difficult to come up with profitable deals and sealing prices, both ways, if the exchange rate changes radically over a short period of time. The production costs could become unstable both ways as resource prices may experience variations when importing or exporting. Also, what might be profitable now in pricing, might totally change to the total opposite over night with the exchange rate. Of course, if the value of the currency would go up regardless of the expectations, the effect would be opposite. (Hunt, Wheeler 2019.)

## 8.2 Investing and Stock Markets

Currencies and the fluctuations affect the international investing market. When investing on a foreign company, the investor is also investing in the foreign currency and is influenced by the exchange rates and their fluctuations. Shadow Chancellor, John McDonnell has stated;

*“Up until now the danger for us is that investment decisions have been put off, that’s been bad enough for our economy, now investment decisions are being made but being made in the negative, not to invest here.”*

Also, the level of international investment on United Kingdom based stocks has hit the rock bottom. According to Shanti Kelemen, A Coutts portfolio manager, investors are driven away by the Brexit risks (Hope, Treanor 2019). This illustrates well the accuracy of these investment concerns UK businesses have.

One of the FX risks is that the value of the investment grows in the foreign market, the domestic market of the company invested in, but remains the same in the market of the investor is due to currency rate changes. Even if the value of the share in which the money was invested rose, but the value of the foreign currency depreciated little to no profit would be made.

This proves that an investment for a foreign investor may not be as profitable as it would be for a domestic investor as a foreign one is also investing to the currency. Of course, this would also apply the other way around when the outcome would also be the opposite. (Christy 2018.) When applying this theory to the heavily fluctuating exchange rate market of GBP is clear the investors would be frightened to invest into British companies during the uncertain and unstable time period.

Investopedia brought up also the economic exposure and contingent exposure, both having to do with foreign investing market. In economic exposure the market value of a company is affected by the volatility of a currency and contingent exposure is the risk companies deal with when investing in foreign projects. When talking about translation exposure it means the effect of exchange rates on multinational firms. (Chen 2018 b.)

These factors are present with Brexit as there are uncertainties with what some describe as currently an unstable currency and this means these risks apply to the foreign people planning on investing, or already invested in the British companies. Thus, these increased exchange rate fluctuations due to Brexit might and potentially will scare off investors especially those working with already bigger amounts and risks. Multinational companies operating also in Britain might struggle with funding their projects in the country, especially if the bid is coming overseas. (Chen 2018 b.)

The capital flow could also take a hit as Brexit would cause Britons no longer being able to invest into foreign markets and foreign being hesitant to invest into British markets. This is supported by the previous theory and an economist who concluded that for Britons it is simply not worth it to make big purchases or investments in foreign market as Sterling would be too weak compared to Euro. Big purchases in this case can be compared to vacation houses for example. (Chen 2018 b.)

Chris Giles, an Economics Editor for Financial Times told in his article that the decrease in national income and linked it also to the decreased business investments. Besides the U.S the world is experiencing a “home bias” trend, says Economics Online. This means that investors are more likely to invest in domestic operations to begin with even if the reward is smaller. There is no doubt Brexit is not balancing this trend. This has arisen from legal differences and transaction costs present but also has to do with the exchange risks when investing to foreign markets (Chen 2018 c.)

Brexit hassle has also caused the airline stocks to dip. As mentioned in “Brexit for Industries” aviation is expected to suffer quite a bit. Stock value of EasyJet dropped to be -8.5% in the London Stocks after May’s deals rejection on March 29, 2019. Their costs are expected to rise by almost 20% and consumer spending is predicted to decrease by over 7%. EasyJet’s faith can be due to it being British. If it wants to continue operating in the EU, it needs to be still partially owned by EU owners. Currently over half of its shares per airline are in the European Union. This is due to rules set for the airlines that they need to be able to prove they are EU owned by 50% or more. Same effect was also experienced by Ryanair. Its stock price fell to -5.2%. Also, Lufthansa decreased by 1.5%, KLM 1.2% and Finnair 0.3%. (Soisalon-Soininen 2019.)

From this can be seen it is mainly the European airlines taking the biggest toll. Britain-based shareholders are now cautious over the risk of them losing voting rights on EU based airlines or having to fully let go and give up their shares. Shareholders have been asking for urgent meetings with airline leaders to make some sense and plan in case of no deal Brexit. (Mooney, Spero 2018.)

In 2018 Financial Times shared a graph illustrating the weight Brexit has been having on the share prices of EasyJet, Ryanair and IAG. From the graph (Figure 20), also seen below, it can be seen that right from the Brexit referendum, the shares took a deep dip in share prices. By October 2016 they hit the rock bottom, ever since fluctuating their ways back up. The share price of Ryanair hit the roof around July of 2017, declining ever since until the end of the time frame pictured in the graph. EasyJet and IAG had their high-point about exactly a year later, they too starting a steady decline from there. (Mooney, Spero 2018.)

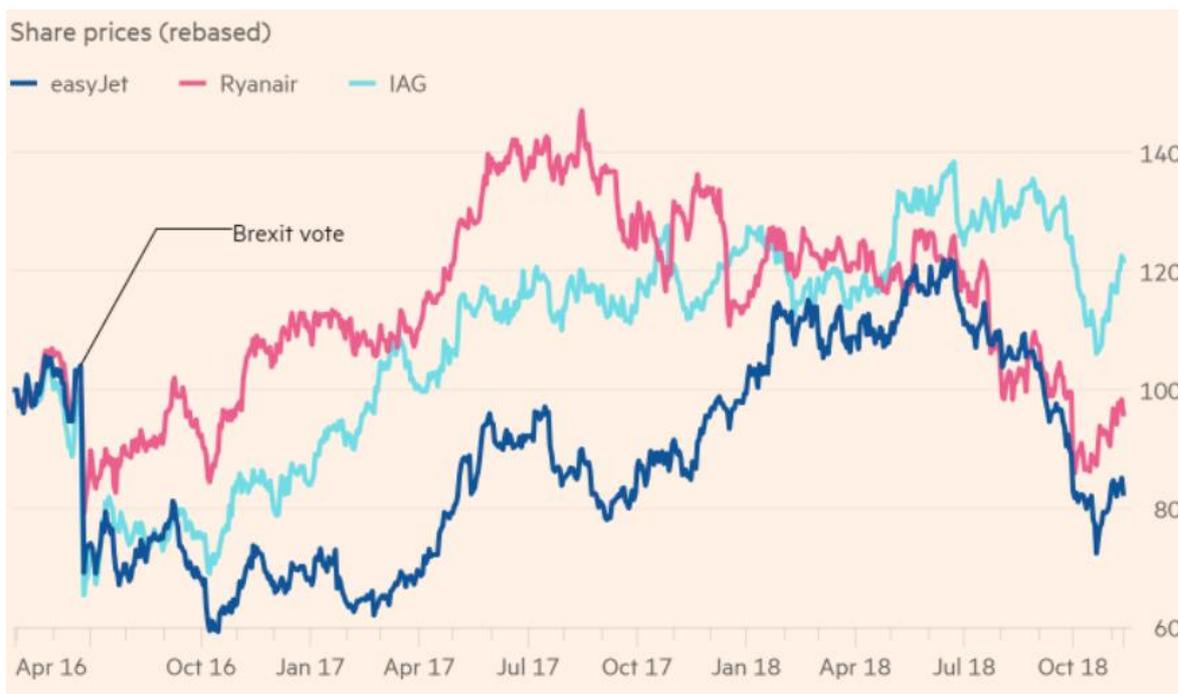


Figure 20 Brexit concerns weight on airline investors. Horizontal axis: Month, year / Vertical axis: share prices. (Mooney, Spero 2018)

When it comes to stock markets, British fintech companies have risen above every EU member country in investments. By leaving the EU, United Kingdom could lose \$5bn worth of investments in the fintech industry. This is due to British companies potentially starting to relocate their staff to EU countries.

Also, start-ups would fall on established operations rather than in the European Union to avoid the inconveniences Brexit could and will likely bring (GDS LINK 2019). The estimates say that Brexit could cause shock also all the way to the U.S as the S&P 500 could decrease by 5%, banking stocks by 8% and the volatility in the broader stock market could climb up to 40% (McGee 2016).

## 9 CONCLUSION

Brexit is equally a political and economic issue. The increased protectionism has debatably led to it. In case of United Kingdom, it might cause the country to fall apart. The idea is rational and understandable. Wanting to protect one's own country, own values and own borders is wanted by many. Every country wants to defend domestic operators, employment and citizens' rights. However, it is the execution where Brexit went wrong and became a massive political deadlock. If this was to be the only solution, probably many other countries would have already done the same. United Kingdom intended to be an example for others to follow, but yet they are rather made fun of by the others, the remaining member states.

### **The Brexit Process**

The process itself has been long and full of surprises. May's deals were rejected in the Commons with historical numbers. No changes in seemed to do the trick to convince the members of Parliament. The question over the Backstop turned out to be a knot that no one knew how to untie regardless of all the effort. (Morris 2019.) Time was running out and no one seemed to know what to do to make it work. Vote after vote May was defeated.

After the release of the results, second referendum was wanted by many. This included also the Labour Party. The second referendum was eventually voted against by the Parliament (BBC 2016). Some MP's concluded it would be a violation against those who voted to leave in the first place. The author thinks there will always be people for and against when talking about the exit but second referendum would still be a democratic decision. After all it was requested to have one, if the majority voting to leave is not big enough, which it was not. Increase of knowledge and the long process to get a final result likely has changed the values and opinions of people. This has been proven by non-binding surveys done by different parties and web sites. From this case, can be learned how essential it is for the decision makers to be as clear and transparent as possible. The author believes the referendum should have been backed up with more critical information on the effects. Instead it was advertised as the ultimate solution for the UK to save the country from the dominating power of EU. If more information was shared earlier, more people could have been more satisfied with their voting and the end result. Adding economic and political education in schools could also increase youth participation and add understanding of Brexit.

As for the process, no deal scenario was supposed to be non-existing option, yet day by day it became more likely than ever. May had told it was something that was never going to happen. Eventually the MP's had to vote on it as a last resort before asking for an extension. But then again, May, also had said she shall not delay Brexit. Triggering the Article 50 was now officially risking UK crashing out of the EU. The plea to revoke Article 50 by the public tells a lot. Not to mention the intense number of people signing it in matter of minutes. (Hern 2019.) People seem to have lost the trust in the process and the outcome and now want to stop it from happening. This is also backed up by the protests with up to millions of participants on streets, waiting for a conclusion.

The country managed to get themselves in a difficult situation which lead to a lot of hesitation and even more questions there were in the first place. For many the extension was final admission of failure (Syal 2019). No one seemed to know what to do and how to proceed. The time running out was creating pressure upon the Prime Minister and the Parliament. May took it as far as offering to resign from her duties in exchange for a deal getting accepted by the MPs. (BBC 2019 k.)

The author sees this as inability to stand behind what has been said and promised. Still in a way this also demonstrates a certain level of humbleness from her behalf. For the author the whole Brexit process demonstrated bad planning and time management. If there was to be an actual plan and a vision, the author doubts there would have been such problems to begin with.

### **The Economy and Trade**

When looking at the British economy, can be seen it is doing relatively well. Regardless of fluctuations the size of it has been in good growth (Jackson, Strauss, Bernard, Pearson 2019). However, yet the economy has not been able to reach same level of productivity after 2008 crisis (Financial Times 2019). This can be a sign of not being able to effectively handle radical economic changes, something Brexit is as well predicted to be. Taking in consideration the fact that tens of millions of Pounds have been lost in the non-proceeding Brexit process, it could slow the adaptation by a lot.

Not just the spending alone is going to cause losses, but also the divorce bill is going to be expensive (Parliament UK 2018). This could furthermore decrease the chances of the economy reviving quickly. The very likely custom caused delays in logistics could as well cause extra costs as well as scarcities. Again, bringing a negative effect on the economy- and its resourcing. Scotland has stepped forward by saying they want to become independent (The Guardian 2019). This could mean UK losing quite of a chunk from their

economy and GDP. This again, would just add to the financial and economy related problems post Brexit.

The rising customer price inflation will mean more expensive goods for the Britons. This added to the fluctuations and dips of the Sterling Pound arguably do not make a great combination. As economists argue, Brexit would in any case be good only in long term, if even then.

Immigration is an essential part of the labour force, no matter the skill level. Therefore, limiting migration could cause problems to the economy. It is understandable why UK would not want to pay social support to unskilled and unemployed EU citizens in the country, yet many unskilled people are working and supporting many important industries. One of these industries being heavily reliant on this kind of workforce is construction. ONS has mentioned that by limitations to the free movement of labour, building costs could increase by over 60%. This would mean by saving money in the subsidy payments, the money would likely end up invested in balancing the labour costs and lack of foreign labour force.

Trade of United Kingdom has very much to do with the European Union. It is rational to see why UK wants to strike own trade deals. Especially the Irish border has been a topic of discussion. By disturbing the trade flow between the Republic of Ireland and Northern Ireland, the UK could experience massive delays and trade losses. Ireland in 2017 resulted to over 20 billion pounds worth of imports and around 34 billion pounds worth of exports (BBC 2019 I). Also, if disrespecting the Good Friday Agreement, it could cause tension between the two countries. Therefore, a Backstop deal is essential for the United Kingdom and it should not be brushed under the carpet. The table below concludes the main positive and - negative sides of Brexit (Table 6).

*Table 6 Pros and Cons of Brexit presented collectively*

PROS AND CONS OF BREXIT	
PROS	CONS
More power over laws and regulations	New laws and regulations may conflict with those of EU and cause issues regarding efficient co-operation. Gives hard time for industries to readjust
Stricter border control reduces illegal immigration and unwanted commodities from entering the market	Strict border may cause problems with free movement of labour, goods and services. Delays in transportation would be unavoidable
Own immigration policies help with controlling immigration and potentially reduce the loss coming from contributions paid to unskilled foreign labour.	Many industries are reliant on foreign labour force regardless of the skill level. These industries would suffer.
Controls competition on domestic markets. Protects local industries and entrepreneurs.	Globalization downturns the positives of domestic market protection. Due to it, it is nearly impossible to profit only from domestic operations and out those trading internationally.
New trade deals offer new possibilities and opportunities for the country	Single market is most likely lost as well as a ton of other EU agreed, efficient trade deals. No guarantees on striking new more beneficial deals.

The United States have great potential as a trade partner. They have addressed wanting a trade deal as well as Australia. Still none of this is guaranteed and 100% sure. Besides, both of these also conflict in efficiency with the Gravity Model and its principles. Also, the political tension between the U.S and China can be fatal risk for the UK. United Kingdom has managed to get themselves seven new trade deals. There is no promise they will ever make up for the 40 deals potentially lost upon exiting.

Many people have favoured World Trade Organization – trade deal scenario but itself it could not guarantee anything special for the UK. This is due to the Most Favoured Nation principle. Therefore, trying to get something mind blowing out of the situation would be pretty much worthless. Anything the UK could get, would also be accessible for the EU afterwards. Author would see negotiating a deal with the EU and other potential partners being worth the time-consuming process. There is already a lot of time and resources lost in the slow exit process itself. Even more so the focus should be getting to most out of the situation and not throw away the gains made along the way by rushing into a regrettable decision.

Losing trade relations with the EU members could certainly decrease the amount of trade. Decreased trade could then lead to losing of related jobs (Economic Online 2019). This effect can already be seen as automotive industry pulls operations from the UK, leaving

people without a job (BBC 2019 j). As the exit date started to approach, more companies started the cuts and moving process of operations. The author does see this becoming more of a trend in the future, especially if no deal is signed. As the taxes and tariffs build up, there is also a chance for the sales of certain products go down. This can be seen that Nissan already pulled an SUV model out of the British markets (Channel News Asia 2019). Porsche informed customers of a possible 10% price increase in cars purchased due to delivery duties (Hotten 2019). The author would consider this as a rather growing trend as this kind of behaviour has increased since the announcement of Brexit. If the author were to predict, the author would say this is only the beginning in case the uncertainty continues.

### **Brexit Deals**

As for the exit deal, there is a lot of ways to go to. In any case no Brexit deal scenario should not happen. Crashing out of the EU would cause a lot of legislative issues for the companies, delays in trade and uncertainties in peoples' rights. However, each day this is more likely than before. Agreeing with the prisoner's dilemma theory could give an explanation why that is so. Also, May's inability to come up with accepted deal seem to have strengthen the stance of different parties. Table below gives an idea of the pros and cons of each possible scenario (Table 7).

Table 7 Pros and cons of each exiting scenario

PROS AND CONS OF BREXIT SCENARIOS		
SCENARIO	PROS +	CONS -
No Brexit deal	+ Radical, immediate changes for Brexiteers + Total freedom, no deal with the EU	- Could cause economic crash - Uncertain - Unpredictable - Only wanted by extreme Brexiteers - No transition period
Hard Brexit	+ There would be a deal + Still suitable for Brexiteers + Not as radical as having no deal but still has big changes	- Still uncertain - Not wanted by Remainers - Could still be hard for the economy
Soft Brexit	+ Not too harsh + Would still have some relations with the EU + Easier for the economy and industries	- Politically hard solution as no Brexiteer wants this but nor does the remainers
Chequers Deal	+ Cherry Picked qualities on the deal; picked only for the good of the United Kingdom	- Already rejected - EU strongly dislikes the deal which could cause loss of co-operation if somehow agreed on
Norway Model / Norway +	+ Keep access to the single market + Continued co-operation with the EU + Easy for businesses and trade	- Politically hard solution as it is not really what Brexit aimed for - For some people; too tight relation kept with the EU

Instead of taking such a radical approach, UK could have proposed ideas for the European Union. Ideas on how to better the union and how to make it more efficient for all. The author doubts United Kingdom being the only one worrying over things such as illegal commodities on the market and protection of local operators. Yet, even if United Kingdom was supposed to be an example for the remaining members to follow, the author does not think other countries will follow. Especially now, after seeing the mess and hesitation it caused in the Government and amongst the public.

### Author's Proposal

At this point, the author would see the Norway model as the way to go. The deal is simply not passing and the no deal scenario is knocking on the door. Norway model is not the most politically correct solution as it would not fully fulfil what Brexiteers want nor is it properly leaving the Union in the past. At this date and time however, it would be the

safest for the economy. It would maintain the relationship with the European Union and the trade deals would not be lost. Of course, it would conflict with the will to exit the single market but this model would still allow more freedoms for the UK compared to staying in the EU itself. At this point it is essential to let go of the pride and focus on the good of the country on maintaining its stability. Once getting the economy fully back to its feet, UK could reconsider its spot in the European Economic Area.

### **The Currency**

The Sterling pound can be seen to be very easily influenced by supply and demand. The supply and demand fluctuated a lot during Brexit negotiations and therefore the pound's volatility was also increased. The trend seemed to be the value increasing each time when some clarity was gained and the opposite when uncertain decisions were made.

Travelling will likely experience changes due to the Pounds recent behaviour. If pound was to maintain low in value, and visa free access is kept, incoming tourism might increase. This is if counting on the similar trend of 2017 visible in the British tourism. This would advance the demand of the Sterling pound and increase the public spending of tourist. The public spending increase would result in better economy and GDP if happened on a large scale. However, the balancing supply might take a toll if pound was not to rise back up. With less purchasing power, Britons could face the problem of having no point traveling outside of the country. With minimal returns for the exchanged currency, it would be a rational saving decision not to travel. If the factors were to be the opposite, so would be the result.

As the currency is not stable, nor is the investing or stock markets. When investing in foreign markets, an investor is also investing into foreign currency alongside it. Therefore, there is a predicted decrease in foreign investments and the British stock markets. The tension is causing problems especially to companies having shareholders in the European Union. There is not a deal to set what will happen to those shares or companies. The same effect can be seen in foreign project funding (Warden 2019). When a person is uncertain, it is just natural to turn to safer markets. To maintain investors companies should have clear plans on how to proceed in any Brexit scenario.

Of course, this does not guarantee anything, but it showing awareness could ensure some investors to stick around. The Government has published very round and non-concluding information regarding the changes in company operations. Their publications mainly tell what factors are most likely to change, but not so much how.

## **Final Conclusion**

As a final conclusion, the author agrees with the hundreds of economists and the personal original thesis hypothesis. The cons outweigh the pros. The risk for the country is too high and therefore staying in the Union would have been economically better option for the country. Brexit working in the globalized world as planned is not likely at all. For the domestic-only operators it could have been great news. However, even those operators unlikely get absolutely everything needed to operate from inside of the UK. Therefore, also those companies could take a toll on the topic. The author believes it will not be all bad, and in the long run such a massive economy can make it work. Fishers at least will be glad to get the surrounding sea areas back to only their use and benefit. However, the author does believe it takes time and determination to get over the initial shock it will most likely cause.

## **The Author's Self-reflection**

From writing this thesis the author learned a lot. She learned about macroeconomics as a branch of science and what it takes to research a topic surrounded by it. It was quick to notice that writing from such a relevant and new topic was rather interesting but also time consuming and ever-changing. It took a lot of effort and patience to keep up to date regarding the negotiations and the forecasts. The writing process was not a stable and constant one, but instead the process was about writing bits and pieces from the topics from which there was information.

The author also learned about efficient time management and that keeping such a mass of information as a compact package was not an easy task. The relevancy of information in the case of Brexit was important to notice and sticking to the topic only was essential in order to keep clarity and an evident timeline.

## **Objectiveness of the Thesis and Future Research idea**

All the conclusions presented are objective and based on the author's personal opinions drawn from the research. She is not an economist nor a professional when it comes to the topic of the thesis. Therefore, everything written in this thesis should be viewed with a hint of own judgement.

For the future research the author would propose the idea of looking into the probable Scottish Independence. In the future it will be a very present question to answer to and as of this moment it is a potential study to do. It would be interesting to see if a such country could stand finally on its own and make its future for only itself.

## 10 SUMMARY

The thesis is on Brexit and its effect on the British economy and trade. It is focused on the economic aspects over the potential effects over the citizens of the country. The work is also limited so that it contains barely any juridical information on the topic.

Brexit is one of the most talked-about topics all across the globe at the moment and has been for the past few years. It is a massive economic and political question with the potential to either crash the British economy or rise it higher than ever. With the exit date getting closer, essential issues regarding it still being unsolved, the topic is just gaining more relevancy by each passing day.

The aim of the thesis is to make the topic easier for readers to understand and access. This is regardless of the readers age, gender or previous experience with politics and economics. Yet the actual “target audience” could be considered to be young adults. The political language is made simple and the information flow is conclusive and mostly chronological. Adding to the reading experience, the thesis allows the reader also to draw his or her own conclusions as the author’s opinions are addressed to be objective and non-professional.

The thesis covers all the essential factors surrounding Brexit. Starting off with general introduction of Brexit and to the issue of Irish Border. Next is the overview of the country’s economy alongside information on what does Brexit mean for industries. This is followed by all the known withdrawal agreement- and trade agreement options there are. After this there is a chapter on the Sterling pound, linked with investing and stock markets. All this leads to a conclusion chapter and summary.

From the thesis can be learned that the topic is not all “black and white”. There are many aspects to consider and Brexit should never be viewed as only political or economic issue as it is so heavily both of those. The hesitation of making a decision on how to leave has sparked a disbelief in the author, when it comes to the whole process. Therefore, as of this point, all the risk and cons outweigh the potential benefits and pros.

Tim Farron, a former British Liberal Democratic party leader, once said: “Young people voted [on Brexit] to remain by a considerable margin, but were outvoted. They were voting for their future, yet it has been taken from them”. After all this research on Brexit, the author cannot emphasize enough the importance of youth participation in politics and voting. When having a chance to vote, vote, and when voting, research and consider as it is a privilege coming with a huge, often overlooked, responsibility.

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