

Brexit: The Covid Pandemic Masking the Effects of Leaving the EU

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Brexit: The Covid Pandemic Masking the Effects of Leaving the EU

Abstract: On 31 January 2020, the United Kingdom's membership of the European Union ended 47 years after its accession. The agreement provided for a transitional period until 31 December 2020 to renegotiate the long-term relationship between the United Kingdom and the European Union (EU). Almost eleven months after the UK's actual departure from the EU, the extent of the economic consequences of Brexit is still difficult to measure. According to European forecasts, it should cost the United Kingdom 2.2 points of GDP by the end of 2022. Trade with the continent has already declined. Exports to the EU fell by 12% between July 2018 and July 2021. The trend is similar for imports, a decrease of 13%. In both cases, the all-time low was reached last January, during the first month of Brexit, when the disorganization of customs controls culminated. The impact of Brexit is expected to increase next year. The UK's GDP decline in 2020 was 9.9%, the largest decline since 1920. The fact that UK trade with non-EU countries fell by only 0.8% over the same period suggests that most of the decline was due to the impact of Brexit and not to the COVID-19 pandemic.

Keywords: Brexit. Global Britain. European Union. Covid 19 crisis. Trade.

I. Introduction

The historic departure of the United Kingdom from the European Union has created a high degree of economic uncertainty about its future, which will depend in part on new trade agreements negotiated with both the EU and other major economies. The United Kingdom needs to negotiate a new economic relationship with the EU, including maintaining seamless access to the single market. The COVID-19 pandemic has taken the world by surprise. The continuing global impact of the coronavirus pandemic (COVID-19), combined with uncertainty

about the effect of EU withdrawal, contributed to increased volatility in British trade in goods in 2020 and early 2021.

Depending on economic opportunities and institutional characteristics, nation states usually implement one of two scenarios during a pandemic: either rescuing the economy or reducing the number of victims by "freezing" economic activity. In this context, the case of the United Kingdom looks strange. The Boris Johnson government's anti-crisis course, despite extensive economic support programs

and equally widespread social constraints in the form of three lockdowns, has failed to "mitigate" the negative effects of the pandemic in either health or the economy. In March 2020, the United Kingdom was in the top five countries in terms of COVID-19 cases (4.21 million) as

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well as deaths (124,000). The country's economy has returned to 2013. The unprecedented extent of the economic downturn has emerged: the country's GDP fell by 9.9% in 2020, which is not only the sharpest decline in post-war history, but also the worst indicator among the G7 countries. In January 2021 there were 2.6 million unemployed (for comparison, in March 2020 there were 1.4 million) (Milliken, Schomberg, 2021).

The picture is complemented by the fact that the economic uncertainty from the country's departure from the European Union is not reduced by the signing of the Agreement on Trade and Cooperation between the United Kingdom and the EU. In the context of Brexit, the United Kingdom is seeking to strengthen its role as a "junior partner" of the United States in the light of the adoption of the Atlantic Charter for the Defence of Democracy, which ensures that there is no reason for fiercer relations with the United States. In addition, relations between Westminster and regional governments deteriorate during the preparation and implementation of the anti-crisis course. All of this plays the role of external and internal barriers to improving the effectiveness of the government's anti-crisis policy and overcoming the economic downturn caused by the COVID-19 pandemic (Milliken, Schomberg, 2021).

II. BREXIT: a new beginning for the United Kingdom

After 47 years of tumultuous European integration and four and a half years of reversals following the 2016 referendum, this is the culmination of Brexit, official from 31 January, but with effects postponed for a transitional period to alleviate the shock.

The history of the referendum has divided the country so much that no political leader will be ready to start a similar adventure again for some time. A striking example is that more than 5 years after the referendum, and while the United Kingdom has serious social and economic problems, the Labour Party, most of whose members are sharply hostile to Brexit, is still unable to take a stand. The Labour leadership remains paralyzed by fears of failing to regain part of its constituency, the part of the British working class that has succumbed to the populist and sovereign myth, and which still believes, thanks to populist media such as the Daily Express or Daily Mail, that Britain's current problems are Europe's fault, and they have nothing to do with Brexit. So, despite the problems and the fact that the Conservatives have been in power for more than a decade, the Labour Party lags and is still perceived as divided, ineffective as an opposing force and without a clear political vision. And without effective opposition, conservatives have a free hand (Parington, 2019).

The Brexit was originally scheduled for March 29, 2019. During Theresa May's reign, the deadline was postponed twice after MPs rejected her Brexit agreement, which eventually moved it to October 31 (Stewart, 2019). After taking office as Prime Minister Boris Johnson in July 2019, he revised part of the existing agreement. The revised plan effectively establishes a customs and regulatory border between Northern Ireland and the United Kingdom (UK Prime Minister's Office Press Release, 2019). This means that some goods entering Northern Ireland from the United Kingdom will be subject to EU import taxes (known as customs duties). The rest of the agreement remains much unchanged compared to the agreement negotiated by T. May. There have also been changes in the political declaration, which outlines plans for a long-term relationship between the United Kingdom and the EU. This meant that B. Johnson had to send a letter to the EU requesting another postponement to Brexit. EU leaders agreed to the request and, as a result, Brexit was postponed to 31 January (BBC News, 2019).

At the end of 2021, the future of Great Britain remains very uncertain. However, one thing is certain long before the referendum, and that is that a third of the population in the UK wants and has always wanted to leave the EU, and a third considers Brexit to be the craziest idea of the British Government. Thus, surveys have always shown that public opinion was divided on the issue of accession, then Britain's membership of the EEC, which later became the European Union. In general, pro-Europeans remained the majority, but isolationist Britain supporters – sovereign, neoliberal, Marxist, and others – still represented a strong minority (LCI, 2021).

III. The COVID-19 pandemic masks Brexit's impact on the British economy

The decision of the United Kingdom of Great Britain and Northern Ireland (“the United Kingdom”) to withdraw from the European Union creates a situation that will be observed for a long time to come. The United Kingdom left the European Union on 1 February 2020, leaving the EU single market and the customs union and withdrawing from all EU policies and international agreements.

Picture 1. The UK 's withdrawal from the EU



Source: Dispatches Europe. Brexit buzz 2020: The latest developments as the UK counts down to 31 December. December 31, 2020. Available at: <https://dispatcheseurope.com/brexit-buzz-2020-the-latest-developments-as-the-uk-counts-down-to-31-december/>

The period of pandemics and Brexit is a period of change in the strategy of many British companies. Existing exporters are aware that the free movement of goods to EU markets is over and that non-tariff barriers will reduce the competitiveness of many products.

With the United Kingdom and the EU already facing many difficult challenges, the global pandemic has taken the world by storm and sparked disputes over the economic stability of countries around the world. At the beginning of 2020, unknown circumstances surrounding the COVID-19 pandemic and two crises in the EU caused the “black swan” phenomenon. Even

though Britain is one of the most affected countries among the EU member states because of the COVID-19 pandemic, Boris Johnson left the EU. Brexit supporters supported the idea of CANZUK, t. j. between the United Kingdom, Canada, Australia, and New Zealand. The COVID-19 epidemic took the world by surprise (Parington, 2019). The continuing global impact of the coronavirus pandemic, combined with uncertainty about the impact of EU withdrawal, has contributed to increased volatility in British trade in goods in 2020 and early 2021. It is difficult to fully distinguish the coronavirus impact on the British economy limiting the potential consequences of Brexit. Which leads to the view that Brexit without an agreement may not be cheaper than the long-term economic impact of the COVID-19 pandemic (LCI, 2021).

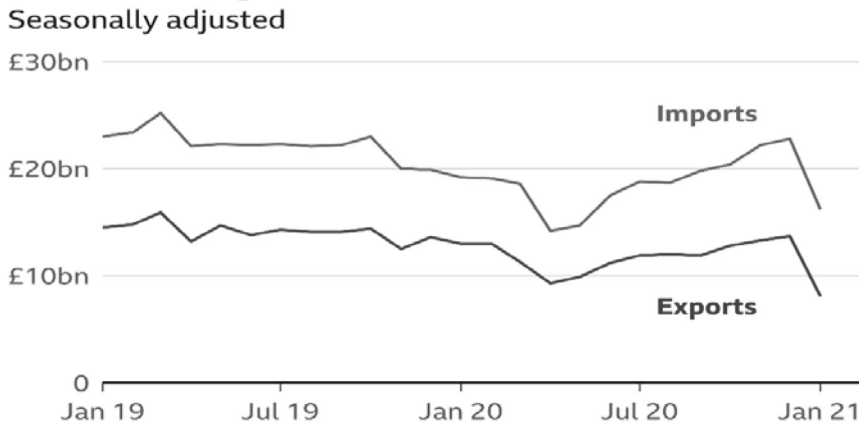
The economic situation in the United Kingdom after leaving the European Union has been exacerbated by problems with the supply of goods because of stricter immigration rules, as well as an increase in the number of tariffs and the volume of bureaucracy. The UK's external trade figures, published by the British Bureau of National Statistics (ONS) on 11 March 2021, are the first since the end of the transitional period after leaving the EU. They show that the value of the UK's external trade fell sharply in January 2021 compared with December 2020. It should be noted that since January 2021, the ONS has changed the way data is collected and compiled on exports from the UK to the EU. It uses customs declaration forms instead of Intrastat, the system of statistics on trade in goods between EU Member States, which has been operating in the European Union since 1993. In the absence of a declaration, the new methodology assumes that goods arrive in their country of destination after five days. This means that some exports of goods are recorded in the month following their actual movement. The data for January 2021 are so far from the last official data on the foreign trade of Great Britain (LCI, 2021).

- Total exports of goods fell by £ 5.3 billion (19.3%), mainly due to a fall in exports to EU countries of £ 5.6 billion (40.7%); this is the largest drop in exports to the EU in 11 years. By comparison, exports to non-EU countries increased by GBP 0.2 billion (1.7%) over the same period.
- Total imports of goods decreased by £ 8.9 billion (21.6%) due to a decrease in imports mainly from EU countries by £ 6.6 billion (28.8%), but also a decrease in imports from non-EU countries by 2.4 billion pounds (12.7%) (BBC News, 2021).

Economist at the British Chamber of Commerce, Suren Thiru, says a sharp drop in UK exports to the EU, especially compared to non-EU trade, is a *“threatening indicator of the damage caused by EU trade after Brexit”* (BBC News, 2021, p. 1).

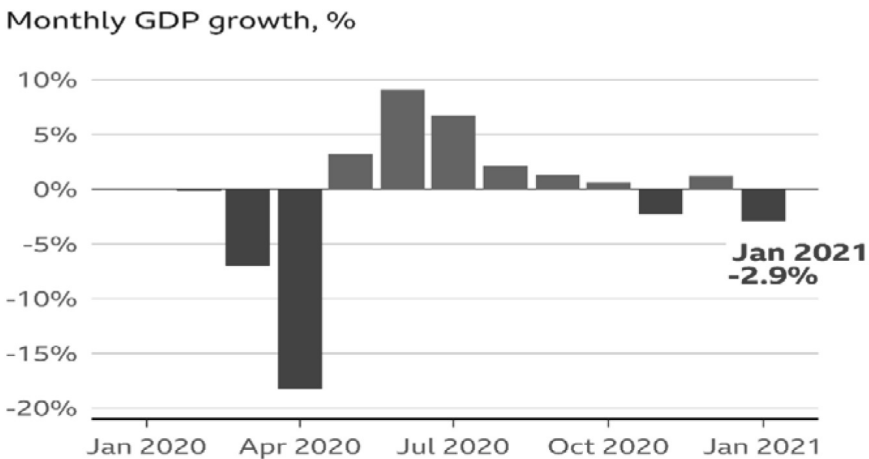
The United Kingdom's withdrawal from the European Union has slowed trade between the island and the continent and caused scarcity in its territory. More worrying and lasting consequences than the health crisis. Richard Hughes, president of the Office of Public Budget Forecasts (OBR), said that *“leaving the EU has reduced the UK's long-term GDP by around 4% in the long run, while the pandemic will reduce it by another 2%, an estimate revised based on a decline after increasing to 3%. In the long term, it is true that Brexit has a greater impact than the Covid-19 pandemic on the British economy,”* he said in an interview with the BBC (BBC News, 2021, p. 1). Richard Hughes's comments come after OBR stated that the cost of living could rise at the fastest pace in 30 years, with inflation reaching almost 5%. *“Over time, it will be increasingly difficult to distinguish the effects of a pandemic from other factors such as Brexit”* (BBC News, 2021, p. 1) the Office for Public Budget Forecasts warned in its report, which updated its economic forecast.

Picture 2. UK trade in goods with the EU



Source: BBC News. “UK exports to European Union drop 40% in January,” March 12, 2021. Available at: <https://www.bbc.com/news/business-56370690#comments>

Picture 3. UK economy shrank in January



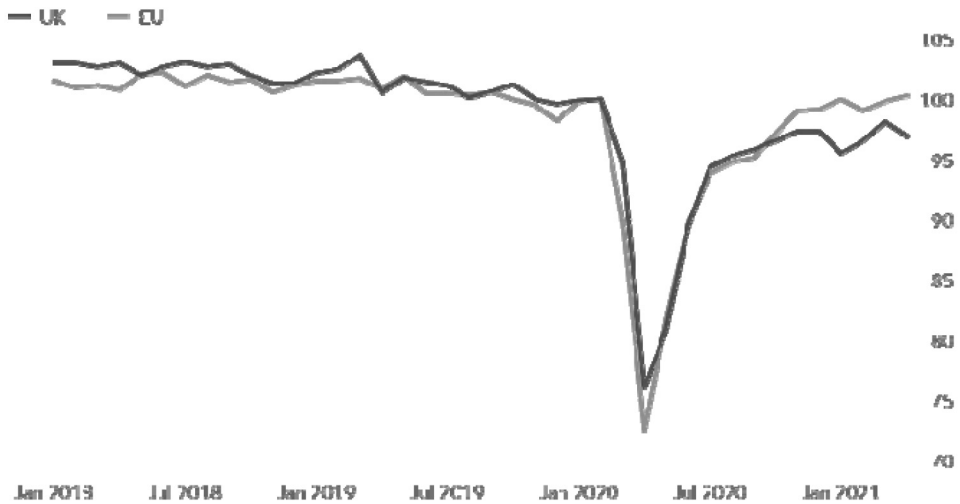
Source: BBC News. “UK exports to European Union drop 40% in January,” March 12, 2021. Available at: <https://www.bbc.com/news/business-56370690#comments>

The departure will have a “greater impact than the Covid-19 pandemic on the UK economy in the long run,” (Giles, 2021, p. 1) Richard Hughes, president of the Office of Budgetary Responsibility’s Office of the European Budgetary Bureau, told the BBC.

William Bain, head of trade policy at the British Chamber of Commerce, said: “Overall, the numbers are worrying. Combined with German trade data earlier this week, the UK is clearly trading with the EU less than three years ago. SMEs and other businesses will want the UK and EU governments to take steps to improve this situation in the coming months” (O’Carroll, 2021, p. 1).

Picture 4. The impact of Covid-19 has made the comparison of economic data difficult

Industrial production (volume indices, Feb 2020 = 100)



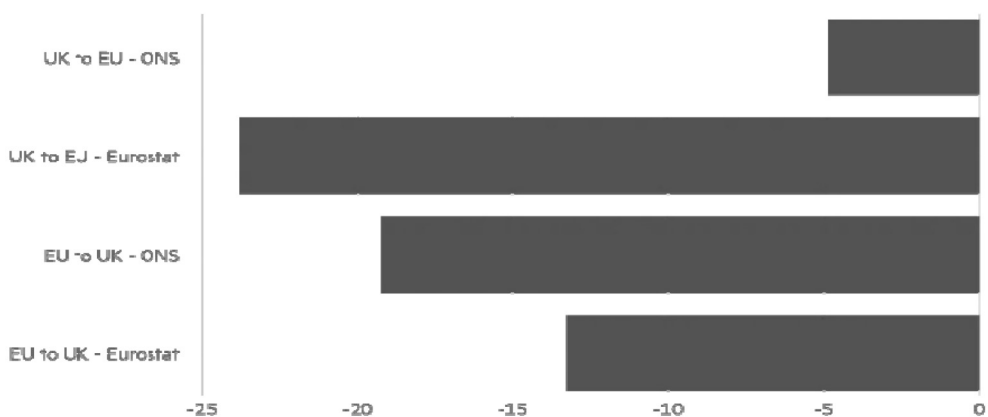
Source: Giles, Chris. "Covid pandemic masks Brexit impact on UK economy." London. July 1, 2021. Available at: <https://www.ft.com/content/fbb70741-34cc-4f54-a66b-a2e4b9445f5b>

The United Kingdom, according to the German Federal Statistical Office, is not one of the country's top 10 trading partners for the first time in 70 years, with UK exports falling by 11% to € 16.1 billion (GBP 13.8 billion) in the first half. in 2021 (O' Carroll, 2021).

"The loss of the UK's foreign trade is a logical consequence of Brexit. These are probably lasting consequences," (O' Carroll, 2021, p. 1) added Gabriel Felbermayr, president of the Kiel-based Institute for the World Economy.

Picture 5. Assessment of Brexit trade effects depends on the statistics used

Monthly trade in goods (% change, Dec 2020 to Apr 2021)



Source: Giles, Chris. "Covid pandemic masks Brexit impact on UK economy." London. July 1, 2021. Available at: <https://www.ft.com/content/fbb70741-34cc-4f54-a66b-a2e4b9445f5b>

In its latest report, OBR emphasized that supply shortages caused by stricter immigration rules, as well as more tariffs and bureaucracy, worsened the situation in the UK after Brexit. On this basis, Finance Minister Rishi Sunak, presented a budget plan. He announced billions in aid for many sectors, as well as tax increases (Milliken, Schomberg, 2021).

Deputy director of the think tank of the Centre for European Reform John Springford said, that *“in general, the crisis associated with the Covid-19 pandemic has flooded economic data, making it difficult to make any comparisons, so we really can’t decipher the effect of Brexit”* (Giles, 2021, p. 1). The most important area where the effects of Brexit quickly became apparent was the trade in goods. Following the accumulation of stocks in December, the additional customs and security controls that had been in place since 1 January caused a sharp drop in trade in the first month of the year before restoring part of the lost land (BBC News, 2021).

IV. United Kingdom: collapse of trade with the European Union

The difficulties in determining one of the main causes of the collapse of the UK’s trade with the EU (declining exports and imports) are various overlapping factors.

According to the ONS, the restrictions imposed in the context of the COVID-19 pandemic, including the national blockade in the United Kingdom and its main European trading partners and the associated decline in demand, as well as global production downtime and supply disruptions deterioration in the United Kingdom’s external trade performance. For example, the decline in UK car exports due to reduced demand and reduced production is related to the tightening of blocking measures in major trading partner economies at the end of December 2020 in response to the risk of the spread of the new COVID-19 disease (Milliken, Schomberg, 2021).

The reason for the decrease in clothing imports to the UK market (mainly from China) in January 2021 was the decrease in clothing retail sales in the UK due to the national blockade introduced in response to the increase in COVID-19 combined with the accumulation of clothing stocks since late 2020. By 2020, wholesalers and retailers had stocks that were higher than normal (14.4 percent), which rose to 22.1 percent by mid-December 2020 (Global Data, 2020). Part of the decline in both imports and exports can therefore be attributed to stock accumulation before the end of the Brexit transition period by companies on both sides. The English Channel, which in January 2021 did not have to transport so many goods (European Central bank, 2020).

The new border rules entered into force on 1 January 2021, based on the provisions of the EU-UK Trade and Cooperation Agreement agreed by the negotiators on 24 December 2020. However, the new agreement did not remove non-tariff barriers to trade. Since the beginning of 2021, the European Union has carried out a full inspection of goods dispatched from Great Britain. However, post-Brexit controls on certain EU goods arriving in the UK have been postponed improving the state of border infrastructure and information systems and to give companies more time to prepare for change (Bell, 2021).

V. Conclusion

The time of the pandemic and Brexit is also a time of necessary redefining the operational strategies of many companies. Existing exporters to EU markets are aware that the free move-

ment of goods is over and that non-tariff barriers applied by the EU, including food exporters (such as veterinary checks on meat and poultry), will significantly increase their costs. These costs will translate into higher prices, which will reduce the competitiveness of exporters. It takes some time for trade to move, for example from the EU to Asian countries, but more and more British companies are leaning towards launching or intensifying sales in Asian countries.

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