Brexit: Viable Options to Avoid Crisis

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Abstract

This paper covers the viable options that the United Kingdom may take to avoid economic and political crisis as they exit the European Union. There are several benefits and detriments to the exit. Some benefits include economic and political freedom from a slowly degrading system and increased options for global expansion. Detriments include loss in Foreign Direct Investment and trade with their larger European Union partners. The options as they exit are to either join the European Economic Area or leave with no deal and set up trade agreements later. This paper draws on recent studies on the effects of Brexit on economics and politics and uses those studies to decide the least damaging option for the United Kingdom.

Post-Script: Currently, England still faces many issues presented in this paper; however, as Brexit officially happened on January 28th, 2020, England does face a declining economy amidst the backlash from the official leave. Their current deals are still in effect until the end of 2020, and England will need to determine how they will approach future deals with the European Union.

Keywords: Brexit, economic separation, crisis avoidance plans, European Union, United Kingdom

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Introduction

Forming Regional Trade Agreements (RTAs) is one of the fastest growing trends in the world economy. This trend has growing because of the many benefits that RTAs have for nations looking to expand their influence in the world economy. These benefits range from simple tariff relief to Foreign Direct Investment (FDI) (Cherif & Dreger, 2018, p. 1263), to bargaining power (Lynch, 2010), to increased economies of scale (Estupiñán, 2017, p. 261). According to Lynch (2010), the most recent wave of RTAs occurred in the 1990s when nations began to band together to increase bargaining power, increase market access, and shield against unfair use of trade policies, such as tariffs and quotas (pp. 1-2). In the case of the European Union (EU), the RTA was formed with all of these tools of prosperity in mind, but the formation of this RTA also carried the promise that Europe would not fall into another World War or Cold War (Lynch, 2010). With this in mind, the Maastricht Treaty, or the Treaty on the European Union, was signed in 1992 with the purposes of creating an economic union with a common currency and policies foreign, justice, and home country affairs and that would unite Europe in a way that made them dependent on each other (Lynch, 2010). This economic union would go on to be one of the most successful RTAs in history and would unite Europe economically and politically. In 2004, the EU would have a massive growth in membership form fifteen member nations to twenty-five and would be at twenty-seven members by 2007 (Lynch, 2010). Considering all of these benefits and the growth that has occurred in the EU over the years, England's decision in 2016 becomes even more perplexing. The UK has decided to leave the EU to pursue personal economic and political freedom from an increasingly ineffective system.

On June 23rd, 2016, the people of the United Kingdom (UK) elected to leave the EU and sent the global economy into a tailspin of unpredictability, according to Belke and Gros (2017, p. 318). The reasons for leaving have a fairly wide range both economically and politically. According to Los McCann, Springfield, and Thissen (2017), the more rural areas voted to leave because of political and social reasons whereas the people of London and other large cities voted to leave because of expanding economic opportunities outside the EU (p. 787). RTAs do have the potential to become constraining for their members (Lynch, 2010). By nature of being a member, the UK had to adopt certain foreign and economic policies that at the time were beneficial but have become dangerous to the UK as the world changes. Additionally, the EU has had a structural growth problem since the 1980s that has caused no lack of economic and political strife between the nations (Salvatore, 2017, p. 839). After seeing the constraining forces that the UK is under, it makes some sense that they would want to leave the EU. However, there are still many negatives associated with leaving. If the British Exit (Brexit) goes through without a deal with the EU, the UK will lose much of its FDI, a lot of its support, most or all of its trade benefits with EU member nations, and potential some political allies. Begg (2017) indicates that Brexit, if it goes through, will be a nearly complete economic disintegration, and the negative effects are unavoidable (p. 300). Therefore, the UK must make several decisions to avoid crisis. This paper will focus on the benefits and detriments of the leave decision and provide analysis on two options the UK has to avoid crisis.

Detriments to Leaving the EU and Reasons to Rejoin Later

Brexit is an anomaly that will have large effects on both the UK economy and the EU economy. The two systems have been intertwined for years now and have become so economically dependent on the other that tearing them apart may cause serious damage to both systems (Belke & Gros, 2017). Begg (2017) remarks that an economic disintegration at this level is a rarity and goes well beyond just rescinding membership or activity in a preferential trade bloc (pp. 300-1). It instead requires years of negotiation to rebuild independent systems that can function at the same level as the previous codependent system. No one really knows how to predict what the actual effects of this disintegration will be due to the rarity of the situation. Because of this uncertainty, the UK economy has suffered and will continue to suffer economically until confidence in their economic system returns. Beyond the issue of confidence in the UK economy, there are several tangible economic and political issues to leaving the EU.

Economic Draw Backs of Leaving the EU

Economically, the UK will face several problems that they must overcome to avoid crisis. The negative consequences have the potential to include a loss in FDI, a loss of frictionless trade between the UK and EU 27, and a loss in financial support for the UK and a loss in income to the EU budget (Begg, 2017; Belke & Gros, 2017). All of these problems have the capability to cause a financial or political crisis in the UK; however, the people of the UK believe that their government has the capability to overcome these challenges and lead the UK back to independent financial and political stability.

Potential loss of foreign direct investment. Foreign Direct Investment (FDI) is the capital that a nation or company of that nation will invest into another nation or company of that nation (Baier & Welfens, 2019, p. 194). For the UK and EU, FDI is usually the capital that the EU government invests in UK social welfare programs, the capital EU investors put into the London Stock Exchange, or the capital UK businesses invest into EU businesses or financial projects (Baier & Welfens, 2019). Because of this mutual investment, the Bank of London, which is the UK's largest bank, has grown dramatically over the past 40 years (Baier & Welfens, 2019, p. 194). Brexit threatens to foil that success and reduce the investment from EU nations and companies into the financial service industry if the UK. According to Belke and Gros (2017), the UK currently invests about 683 billion Euros in the EU, which is around 26.6% of the UK's total GDP (p. 318) These investments garner large returns for the UK and, according to Sinn (2016), have been a key factor in building the UK financial sector (p. 43). The other side of the UK's success from FDI is the amount of investments from the EU government and individual EU nations. The EU as a whole, including both the central government and individual nations, currently has investments that total 985 billion Euros in the UK, which makes up about 8.7% of the EU's combined GDP (Belke & Gros, 2017, p. 318). Those investments, though smaller in relation to total GDP, have been incredibly lucrative for the EU, and loss in those investments could be extremely damaging to an already sick economy. The biggest loss in FDI and financial collaboration might come from the loss of the German and London Stock Exchange Merger. According to Sinn (2016), the Deutsche Boerse and London Stock Exchanges were planning to merge together and base their headquarters in London, the financial hub of Europe (p. 43). Unfortunately, the EU has vetoed that merger and the potential gain from that merger has been totaled erased. Before even leaving the EU, the UK has already experienced some financial shocks and losses from FDI.

Loss of frictionless trade. The other major loss for both of these economies is the loss in nearly frictionless trade. Preferential customs policies and reductions on tariffs are primary benefits that are generally included in any RTA (Lynch, 2010). The EU is no different in this respect. The UK's primary trade partners are currently in the EU. This may change due to Brexit, but a loss of frictionless trade with these key partners will greatly hurt UK businesses. According to Belke and Gros (2017), the UK exports about roughly 184 billion Euros worth of products to the EU (p. 318). This is not as much as the FDI that they benefit from, but it does still make up about 7.5% of their national GDP (Belke & Gros, 2017, p. 318). On the other side of the equation is the UK's imports from its EU trading partners. Though its largest trading partner is the US, which makes up about 13.4% of its total imports as of 2017 (Belke & Gros, 2017), the EU makes up the majority of all trade in the UK. Each individual partner within the EU does not make up quite as much as the US, including Germany which is its second biggest trade partner. However, all together the EU exports about 306 billion Euros worth of products to the UK (Belke & Gros, 2017, p. 318). Losing nearly frictionless trade with these partners will be a big hit to the UK and its businesses.

The bigger hit to the businesses, though, is the lack of certainty that accompanies major government policy change. According to Bouoiyour and Selmi (2018), when policy changes occur, the uncertainty of the effects of the policy change on business tend to cause sharp drops in share prices, and this is exactly what happened to UK firms in the first months following the Brexit decision (p. 278). Not all UK businesses were affected at the same level though. Many industrial companies and many of the companies in the financial sector actually weathered the storm fairly well for the first nine months, and this helped keep the UK economy growing, according to Begg (2017, p. 300). However, in the months following that these businesses began to fall with the rest of the economy due to the worldwide mini recession (Bouoiyour and Selmi, 2018, p. 277). The companies that fared the worst were the logistics and transportation companies. According to Bouoiyour and Selmi (2018), these industries fell sharply because a huge surge of certainty began to grow regarding trade across the English Channel (p. 278). Many were asking whether or not trade would continue between the UK and France and if it would be more difficult to travel to the UK. This caused fewer people to travel there, businesses had to rethink decisions based on government policies that may or may not be going into effect (Bouoiyour and Selmi, 2018, p. 278), and some trade just stopped for a while. As the UK officially leaves the EU, they may see much of the same in the coming months and years.

Political Draw Backs and Loss of EU Funding

Politically, there are decidedly fewer drawbacks to the Brexit movement, but there are still obstacles that the UK must overcome to avoid political fallout. The Irish Backstop has been a primary blockade to all negotiations regarding border and free trade arrangements (Campbell, 2019). The UK also has the potential to lose bailout safety nets put in place by the EU (Bortz, 2019, p. 78), and the UK will also lose much of its public funding for community centers and social welfare programs (Los, McCann, Springfield, & Thissen, 2017, p. 787). To avoid political fallout and maintain their relationships with its EU partner, the UK will have to overcome these hurdles.

Irish Backstop and continued EU relations. The political landscape between the UK and the EU is about to change drastically. Though the UK has no land borders with the European mainland, it does share a border with Ireland. The border between Northern Ireland and Ireland has been the center of a lot of conflicts between the nations and has become sticking point in the negotiation process (Campbell, 2019). Campbell (2019) says that the Irish backstop is an insurance negotiation between the EU and UK that would avoid a hard border between Ireland and Northern Ireland. Currently, products going back and forth over that border do not have to be checked at customs. That has the potential to change if the parties do not reach a sufficient trade deal. Campbell (2019) also states that a hard Brexit deal would create a hard border between Ireland and Northern Ireland, which would decrease trade speed, raise costs, and probably reduce some of the trade volume across that border. Douglas and Hannon (2019) state that this negotiation process has been the most difficult hurdle for Prime Minister Johnson as he was getting set to leave the EU. The Northern Ireland supporting party refused to vote for the leave without sufficient proof that trade would not be slowed over the border, as that is the primary form of economic growth for the people of Northern Ireland (Douglas & Hannon, 2019).

Loss of bailout options. A major political problem with leaving the EU is the loss of funding for social projects and the loss of insurance for bailout if the economy were to totally fail. According to Los, McCann, Springfield, and Thissen (2017), while London and its immediate surrounding regions are largely independent from the EU, Wales, Scotland, and the rural regions of England actually depend greatly on EU funded social programs (pp. 787-8). In fact one community in the rural regions of the UK just received a new community center with social programs for under privileged individuals and children with special needs that was funded EU and built by EU union workers (Los, McCann, and Thissen, 2017, p. 788). While the UK has had to support its poorer members through its own funding, the support from the EU is vital for those more rural communities. They receive educational aid, community centers, some community housing centers for the homeless, medical aid, and many other benefits from the EU social programs (Los, McCann, and Thissen, p. 788). It will be interesting to see if the EU can handle the sudden drop in aid for these social needs if a hard Brexit were to happen.

The insurance from the EU if the UK needed a bailout is possibly the least of its concerns for the negatives of leaving. None the less, it is still a factor that the UK must consider. Salvatore (2017) states that Europe as a whole has an economic growth problem that is structural in nature (p. 837). The primary flaw in its design is the lack of productivity initiatives and possibilities for industrial growth (Salvatore, 2017, p. 837). According to Begg (2017), the positive growth that the UK enjoyed as a bonus to being part of the EU has already worn off (p. 300). Therefore, England is technically susceptible to the same conditions that have caused Spain, Greece, Portugal, and Italy to all fail economically. Greece is probably the best example of how far the EU is willing to go to bailout its member nations. According to Bortz (2019), Greece's economic and financial crisis began in 2010 as a result of the 2008 worldwide recession (p. 76). The results of this crisis were that the annual GDP growth rate plummeted to about -9% by 2011, and the government's debt rose to 181% by 2016 (Bortz, 2019, p. 78). Several rescue packages were used to try to bring Greece back out of this crisis. Most of these packages were used to try to pay off Greece's debt, but the debt continued to rise. The EU played a major part in the financing of Greece. The EU and its member nations, such as the UK, along with the International Monetary Fund contributed over 200 billion Euros to the rescue packages (Bortz, 2019, p. 78), and the EU was the architect of several pans to try to save Greece. The EU is willing to go a long way to rescue its members from financial and economic crisis, and, if the UK were to leave this RTA, they would lose a long-time partner that would be there for them through economic devastation.

All of these negative consequences are generally seen as reasons for the UK to stay in the EU. Nations, Companies, and people will generally tend to avoid adverse risks instead of pursuing favorable rewards because they do not like pain. However, all of these possibilities can still happen even if the UK remains in the EU. Salvatore (2017) explains that the structural growth issues of Europe reach into almost every nation there and are tied to productivity (p. 837). The EU no longer holds its benefit of sustainable growth by just being a member as it once did, according to Begg (2017, p. 300). Therefore, if the UK remains in the EU, it may feel the loss of other strategic partners, it may still lose EU support for social programs, and it may still lose FDI. Uncertainty lies on both sides of the decision.

Positive Attributes of Leaving the EU

Despite these setbacks that the UK may possibly face as they exit the EU, there are many positive consequences to leaving that will almost assuredly happen. The other viable options are to leave the EU with some kind of deal or to leave with no deal. Leaving with a deal can come in many forms. One of the most viable options is to leave the EU with the promise of being able to join the EEA (World Bank, 2016). This way allows the UK to still maintain many of its current partnerships and still be a member of the European Single Market but still gives the UK enough autonomy and political freedom to make the best decisions for its people and its own economy (Hannan, 2016, p. 22). The other option for the UK is to have total severance from the EU. They could leave with no deal and create smaller Free Trade Agreements or have no frictionless trade with EU nations. This is also a totally viable plan for the UK. Before discussing either of these options, one must first understand all the possible reasons that the UK might want to leave the EU and the benefits of being a member. The reasons for the exit are both economic and political.

Economic Reasons for Separation

By leaving the EU, the UK will take on many costs that will be heavy, and the UK has already taken on some of them by just voting to leave (Sampson, 2017, p. 163). Though this is true, it is the belief of the people of the UK and many economists that the long-term economic benefits of leaving the UK far outweigh any immediate costs that may occur (Los, McCann, Springfield, & Thissen, 2017, p. 787). The decision to leave holds all of political and economic rationale, but this section will focus on the economic rationale as well as some political policies that shape the UK economy. The primary benefits of Brexit to the UK are political and economic freedom, increased trade with their non-EU partners that make up a good portion of their real

GDP, escape from a failing system, and the ability to shift their focus from European growth to global growth.

Economic and public policy decisions. The first benefit, that has quite possibly the greatest long-term rewards for the UK, is the freedom to make economic and public policy decisions without having to consult the EU. For a long time, the EU has been a positive force that has helped the UK through its policies and connections. Despite the EU being historically a good policy maker, the EU board has set several policies as of late that do not help the UK and at some levels constrains them (Sinn, 2016, p. 42). The UK needs to be able to make decisions and enact policies that are right for its people. The UK should not be held liable to cover the rest of the EU nations and sacrifice its own prosperity for theirs. While that would be noble, the government of the UK has duty to its people not the EU. Lynch (2010) notes that RTAs often reach this point, when one member no longer needs the RTA, and the policies of the RTA are constraining to its growth (p. 6). When this happens, that member should probably leave as it needs to make its own deals that benefits its own growth (Lynch, 2010, p. 6). Therefore, it is a wise maneuver for the UK to exit the EU at this time to avoid risks associated with the social policies of the EU. These policies have created issues in Spain, Germany, Italy, and other EU nations; however, those social risks will be discussed further later.

Along with social policies, the economic policies of the EU have become increasingly constraining on the UK over the past 40 years (Blockmans, 2016, p. 182). One example of this is the fishing industry. Morgan (2016) presents findings that show that the UK fishing industry was a primary money maker for the UK and a primary source of food for the English people until about 40 years ago, when the UK joined the EU and submitted themselves to the European Union’s Common Fishery Policy in 1972 (p. 1756). This policy initially did allow more access for UK fisherman to alternate waters but also gave every other country access to UK waters, and this deal has continuously become more constraining to UK fisherman over the past 40 years (Morgan, 2016, p. 1756). Today, fish are more often imported into England from other EU nations (Morgan, 2016, p. 1756); however, for Northern Ireland, the fishing industry is still an economic necessity (Macauley, 2019). Brexit will shake the industry and could cause some slowdown in industry practices initially (Macauley, 2019). Despite this slow down, the change could be what is needed for the UK to reenergize its fishing businesses as there was 40% decline in fisherman since 1972 when the UK joined Common Fishery Policy (Morgan, 2016, p. 1756). Economically, it would be wise for the UK to start making its own decisions on policies that support the interests and jobs of its citizens,

Increased focus on the global market. The world is shifting away from a European or American focus to a global focus. According to Blockmans (2016), The UK has changed its economic strategy from dependence on the EU market, though large, to the global market, which is far greater (pp. 182-3). Though it is important for the members of the EU to trade amongst themselves, the UK has many partners outside of the EU that could be more prosperous for the UK to trade with. These partners include China, the US, Brazil, and many others in the Western Hemisphere and Africa. Due to the RTA, the UK is primarily reliant on the EU for trade with 44% of its exports going to the EU and about 53% of its imports come from the EU (Sampson, 2017, p. 167). Despite having a lot of its trade come from the EU, the majority of the trade with the EU, around 80% depending on the given year, comes from Germany and France (Sampson, 2017, p. 167). Therefore, the UK realistically only trades with two of its EU partners. On the other side of the equation, the UK service exports are primarily traded with nations outside of the EU. According to the World Bank (2016), 66% of UK service exports go to non-EU nations (p.1). Therefore, the UK's trade relationships will most likely continue to grow outside of the EU and will most likely continue to grow as the global community grows.

As seen with the initial shocks following Brexit, UK industries are not totally resilient to market change. According to Bouoiyour and Selmi (2018), the two UK industries that have been and will potential continue to be heavily impacted by the Brexit decision are the Finance Industry and the Defense and Airlines Industry (p. 287). The Financial industry has close ties to Germany as the London and Deutsch stock exchanges were almost merged, and the Defense and Airlines industry has a close tie to the EU as a whole due to EU defense and travel policies. Despite setbacks to these industries, they are both predicted to eventually bounce back. According to Obstfeld (2016), equity markets, economic outlook, manufacturing possibilities all dropped initially, but within a few months of the initial drop, all have recovered and have actually improved significantly since the vote (p. 361). The asset market in England, which has been a major factor in the financial sectors success, has proven to be incredibly resilient to outside pressure, which has given many investors' confidence in the UK financial sector (Obstfeld, 2016, p. 361). In addition to this, services, especially financial services, account for 37% of all UK exports, and 66% of those are to nations not within the EU (World Bank, 2016, p.1). While the UK may take a hit in trade and in its major industries, they will bounce back and will most likely be more productive based on the data.

Though the losses from the EU separation may be great, the UK does have plenty of opportunities to advance trade globally as more nations rise to industrial trade status. According to the World Bank (2016), the UK has opportunities continuously growing in Eastern and Central Asia, Sub-Saharan Africa, and the Caribbean Islands (p. 1-2). The UK currently only holds 3% of imports in Eastern and Central Asia as well as only 3% in Sub-Saharan Africa

(World Bank, 2016, p. 1). With these nations continuing to expand in industrial capabilities and market demand, the UK has the option to leverage its new position to expand its operations in those growing markets.

Positive movement for unemployment and wages. Despite what many may have thought, the Brexit vote has actually not had a significantly detrimental impact on the wages of UK citizens, nor has it greatly increased the unemployment rate. According to Los, McCann, Springfield, and Thissen (2017), many UK citizens, especially in the rural parts of England and Wales, are worried about their jobs being impacted by the EU, immigration, and the rise of globalization (p. 787). This is why more than half of that demographic voted to leave the EU (Los, McCann, Springfield, & Thissen, 2017, p. 787). Many believed this ideal to be foolhardy and judged those people for being near sited and not looking at all the EU has done for them, such as provide social funding and jobs (Los, McCann, Springfield, & Thissen, 2017, p. 787). However, it would appear that the people of England and Wales know exactly what they are doing.

Unemployment has not risen dramatically over the past four years, and wages have not decreased. According to the International Monetary Fund (2018), over the past few years since the vote, the unemployment rate continued its downward trend and shrank from just over 5% in early 2016 to around 4% by mid-2018 (Section 4). In addition to a decrease in unemployment, the wages rates in the UK have grown by a few percentage points to match the inflation rate target of the UK government (International Monetary Fund, 2018, Section 4). In addition to the current growth in employment, England would be moving away from sending jobs to the EU and returning to manufacturing and producing more for themselves. For the past forty years, England has been experiencing a general decline in employment in manufacturing and food production industries, such as the fishing industry (Morgan, 2016). The fishing industry specifically has experienced a 40% reduction in its employment, as more and more fish are being imported from various EU fishing companies that are fishing in English waters (Morgan, 2016). By reinstating their rights to the waters around the British Isles, English fishing companies will have the chance to reinvigorate their production capacity and become more competitive. This is one way that the UK can continue to reduce its unemployment rate and bring jobs back home.

Separation from a stagnated economy. Another major factor that will benefit the UK in the long run is the exit from a low productivity trend in the EU. According to Salvatore (2017), the European economy has been declining since the early 1980s (p. 839). Historically, the EU has been associated with being on the cutting edge of finance and industry. It greatly benefitted all of its members by making them appear economically stable just through association and allowed many nations to grow far quicker than they ever would have on their own. However, since the global recession of 2008, the structural issues have been revealed (Salvatore, 2017, p. 837). Primarily those issues have to do with the structure of the European productivity. According to Sinn (2016), the 2008 crash resulted in a 20% decrease in productivity for all of the major European economies, which include Germany and France, and created a crisis of near insolvency for many of the major banks within those economies (p. 43). This crash made a ripple effect for the rest of Europe, as many weaker economies depended on borrowed funds from those financial systems. These European nations include Spain, Greece, and Portugal, who have elected to grow off of personal and national debt. According to Bortz (2019), Greece crashed completely during the worldwide recession, and its economy needed three different packages to attempt to get it to a starting point for recovery (p. 78). The first two of those packages did not work. The UK has long been a bastion of financial stability as it has been a financial hub for

Europe since the end of World War II. Therefore, it has kept itself relatively separate from the rest of the European model for growth.

The UK has consistently attempted to separate its success from the EU through various means. One primary mean of separations is through the separation of currencies. Despite being a member of the EU, the UK has always elected to retain the British Pound as its national currency and primary means of domestic trade. The only currencies that carry the same weight as the Pound are the Euro, the Chinese Yen, and the US Dollar. According to Sinn (2016), though the Euro was initially worth the risks it has quickly become difficult to maintain with so many irresponsible and poor members joining the union and mismanaging the use of the Euro (p. 45). The Euro's stability has been negatively impacted by the increased irresponsibility of the member nations and by the exit of UK financial support. According to Sharma and Mathur (2016), the Euro has become increasingly more unstable and less sure of an investment since the Brexit vote in 2016 and will continue on this trend if it does not receive some balancing factor (p. 61). By leaving this union, the UK will have a greater chance of remaining economically stable and not falling into recession with the rest of Europe.

Political Reasons for Separation

Brexit has caused much commotion throughout Europe and has sent ripples throughout world because of its unexpected exit from a major political bloc. The world is watching the UK as it takes the first steps towards total independence from Europe, who has dominated the world economically and politically since the mid-1400s. Obviously, the UK is a European nation, but the people of the UK do not identify with Europe (Los, McCann, Springfield, & Thissen, 2017, p. 788). They identify as English, Welsh, Irish (Northern Ireland), and Scottish. They have enjoyed their partnership with the EU and certainly have benefitted from that partnership, but they see the UK and EU partnership as two separate entities coming together over a deal. They do not see the EU as their parent or their leader. The people of the UK want freedom from the EU, they want England to make decisions about society and politics, and they do not want to conform to the mandates of a foreign entity that might endanger their lives and the lives of their loved ones. The reality of the situation is that England and its people want control again. They used to control nearly one quarter of the world and were the dominant player in Europe. Now they have given up a lot of control to the EU. According to the European Union website (2020), for a country to become a full EU member, they must totally submit to EU regulations and adopt all EU laws. This should include adopting the Euro as the primary currency, but England has continued to use its Pound. As can be seen, the UK has continuously been a major player in its markets, and the EU is asking the UK to be part of a team. While this may work for the smaller nations and less stable nations of the EU, the UK does not need this level of integration to be successful and provide for its citizens.

National identity. The British people have always considered themselves separate from the rest of Europe, and this ideology has led them to being one of the largest European economies. As an island nation, they have been semi-dependent on trade when they could not feed or clothe themselves. On the other hand, though, England has been in wars with most of Europe. The most prominent of which is probably the hundred-years' war with France, now one of its primary trade partners in the EU. According to Malik (2018), Winston Churchill summed up the UK's relationship with the rest of Europe very well saying, "Britain is 'with Europe, but not of it. We are linked but not combined'" (p. 94). This ideology has been drilled into many UK citizens, who, while they do fraternize with the Europe, do not see themselves as EU citizens (Malik, 2018, p. 93). The citizens of the UK want to keep their national identity. They want to be

English. They do not want to be categorized as European or lumped in with many other countries who have failed in the past century. According to Malik (2018), when asked, 64% of UK citizens wished to be identified as UK citizens and not as European (p. 94). This is one reason that so many citizens, especially from the more rural regions of England, elected to separate from the EU.

National sovereignty. Staying in the same vein as national identity, national sovereignty is of the utmost importance to UK politicians and UK citizens. The citizens of the UK do not want EU laws, policies, and ideologies imposed on them. According to Malik (2018), the UK wants to reassert sovereignty over its border and its laws (p. 93). The British people are skeptical of the EU, its legitimacy, and its ability to make decisions that actually benefit the UK. The EU in the past has made several policies that have adversely affected itself and its members. Therefore, the citizens of the UK do not trust the rest of Europe to make wise economic decisions that will benefit the UK and the rest of the EU. The English people believe their own government is far more adept at making policies that benefit the UK. According to Los, McCann, Springfield, and Thissen (2017), when questioned about local economic benefits and social policy decisions, the majority of English and Welsh people surveyed said that they trusted the UK government to make better decisions than the EU government (p. 788). This can further be demonstrated by the reelection of current Prime Minster Boris Johnson in December of 2019, when the conservative party won a decisive victory and increased their number of voters and supporters for leaving the EU (Colchester & Hannon, Dec. 13th, 2019). These votes and events show what the people want. They do not want a foreign entity to decide what is best for the UK. They do want their leaders to make the best decisions possible for the UK.

Immigration laws and unemployment. The reason that the people of the UK do not trust the EU is because they watch and read the news of what is happening and has happened in Europe since 1995. Immigration from the Middle East and North Africa has caused serious problems throughout the major economies of Europe. In the case of Spain, like several other major European economies, the unemployment rate has risen, and the GDP has declined due to influxes in the immigration rate. According to Gomez-Tello and Nicolini (2017), Immigration in Europe has been increasing since 1995, during the Persian Gulf War, and has placed a significant strain on European productivity, especially Spanish productivity since that time (p. 787). According to Garcia and Soest (2017), the unemployment rate was around 25% during a peak immigration flow in the 1995 to 2006 period (p. 338), and Gomez-Tello and Nicolini (2017) reported that productivity in this same period markedly declined (p. 787). Immigration may not be a direct causality for unemployment and low productivity, but in Spain, at least, it is a factor contributing to these downward trends.

In other major economies in Europe, such as Germany, immigration has been a positive source of labor and generally contributed to productivity. According to Kaivo-oja (2014), the 1990s were an especially productive time for Germany when they had they had large influxes of legal immigrants that could fulfill roles in skilled positions (p. 66). However, more recently with the new wave of immigrants fleeing from war in the Middle East and North Africa, Germany and nations similar to it have experienced negative impacts. According to Kaivo-oja (2014), the EU's lacks immigration policy and refugee policies allowed these immigrants into nations and have put undue strains on social welfare programs and per capita productivity (p. 67). According to Gomez-Tello and Nicolini (2017), the high immigrant population of around 14% in Spain in 2011 required a significant amount of funding for social programs because the immigrants that came did not add to the productivity of the nation (p. 787). In both Germany and Spain, the increased immigrant populations contributed to higher personal debt that has reduced consumer spending in the long run (Kaivo-oja, 2014, p. 67 & Gomez-Tello & Nicolini, 2017, p. 787). For the UK, it would be extremely detrimental to the economy and social structure of the nation.

At present, the UK is growing in its opportunities and employment percentage; however, it is still recovering from the 2008 crisis. Household debt is still an issue with the UK as a primary reason for a small lack in consumer spending (Marketline, 2019, p. 28). According to the International Monetary Fund (2018), the UK has had a continual decline in unemployment since 2011 and was at an all-time low of around 4% as of 2018. Therefore, having an influx of immigrants at this time would further exacerbate the household debt issue of the UK and most likely reverse all the work the UK has done to lower unemployment. By remaining in the EU, the UK would have to conform to EU immigration policies and probably would have to let in more refugees from the Middle East that the UK is not equipped to handle at this time.

Join the European Economic Area

Now that the economic and political reasons for leaving the EU have been established, the question of what a viable strategy for leaving the EU looks like. The UK has several options. According to the World Bank (2016), the UK has a few real options, which are leave the EU and downgrade to the EEA or leave the EU with absolutely no deal also known as a “Hard Brexit” (pp. 2-3). Within the argument for a Hard Brexit, the UK would also have two more real possibilities to maintain trade with the EU, since not trading with the EU is not a real option. Those two options are leave the EU and form several bilateral treaties that accept some EU policies, which is known as the Swiss Scenario, or leave the EU and form multiple Free Trade Agreements (FTAs) with the nations that the UK wants to do business with (World Bank, 2016, pp. 2-3). The UK's official exit was on February 1st, 2020, which means they are now running out of time to decide their direction for continued trade and further EU relations.

Ramifications of Joining the European Economic Area

Joining the EEA is the least dramatic choice of all the options. By leaving the EU to join the EEA, the UK does not change much about its present dealings. According to the World Bank (2016), this is approach, referred to as the Norway Scenario, allows the UK to remain in the European Single Market (pp. 2-3). This means several things for the current economic proceedings of the UK. First, this means that the UK will continue to have nearly frictionless trade with the rest of the EU member nations (World Bank, 2016, p. 3). Second, according to Sampson (2017), this option will potentially convince the rest of Europe that the UK is still a stable partner and may help the UK to persuade the other EU nations to continue to invest the UK (p. 167). Third, the UK will have slightly more economic freedom to pursue its growing relations in East Asia. Lastly, the UK will not get as much separation from the EU as the other leave options as it will have to adopt the "Four Freedoms… movement of goods, persons, services and capital" (Hannan, 2016, p. 22) and all of the EU fiscal legislation regarding the Single Market (Sampson, 2017, p. 165), but the UK does gain the right to set its own economic policies and does not have to use the Euro in any trade deals.

Continuation of near frictionless trade. Any loss of trade is detrimental to any nation. Exporting, according to Lynch (2010), enlarges the consumer base for companies and further benefits bottom lines by increasing revenue streams (p. 2). This true for the smallest business to the largest nation. For the UK, adding barriers to trade with one of their largest markets makes absolutely no sense. Therefore, it would be beneficial to keep barriers to trade as low as possible in this transition time. According to Sampson (2017), as a member of the EEA, the UK would continue to be a member of the European Single Market (p. 165). This provides several reductions to barriers of trade. Firstly, the European Single Market reduces tariffs and duty costs upon entry (Hannan, 2016, p. 22). As the UK currently exports 184 billion Euros and imports 304 billion Euros worth of goods and services to and from the EU (Belke & Gros, 2017, p. 318), adding normal price tariff and duties costs would devastate the bottom line of the nation. Besides this initial border barrier benefit, the European Single Market also allows its members to provide services that are performed in one state in all member states through the "Passporting Rights" (Sampson, 2017, p. 165). This is primarily beneficial for the UK Financial Services Industry. According to Bouoiyour and Selmi (2018), the Financial Services Industry is one of the two largest industries in England (p. 287). According to the World Bank (2016), the financial services totaled about 37% of all UK exports, and 34% of that was just to the EU (p.1). Having this Passporting Rights law in place will help the UK maintain these numbers and provide a base for continued trade. The behind the border barrier reduction of the European Single Market also helps the UK in its export endeavors. One such example of this is the regulatory harmonization standard of the European Singular Market (Sampson, 2017, p. 165). These standards ensure that producers of goods and services do not have to change their products quality to conform to other nations' regulatory standards (Sampson, 2017, p. 165). By conforming to these regulatory standards up front, the UK will reduce overall costs for its businesses and will not hinder economic growth.

There are some drawbacks in regard to trade as a member of the EEA instead of the EU. Despite being in the European Single Market, the UK will not have access to the European Customs Union (Hannan, 2016, p. 22). This means that the UK will now have to pay tariffs and perform customs procedures for all outgoing goods and services (Sampson, 2017, p. 165). This can greatly increase delivery time for companies and will increase trade costs overall. The good news is that the UK will also be receiving more tariff funds from its EU partners. This will greatly increase direct revenue to the government to help fund social programs and defense. It may make the UK a slightly less attractive partner for many nations, but as one of the top providers of financial services as well as military and defense products in Europe, the UK should still be able to retain the majority of its EU partners.

Maintaining foreign direct investment. FDI is one of the major components of the UK's total GDP. According to Belke and Gros (2017), the EU is currently investing about 985 billion Euros into UK industries (p. 318). It is safe to say that FDI from the EU is a huge asset to the UK. On the other side of this, according to Belke and Gros (2017), is the UK's investments in the EU which total 683 billion Euros or 26.6% of the UK's GDP (p. 318). Losing any portion of this direct investment between the two economies would be devastating. Along with this, the UK has the potential to lose some investments from non-EU nations because of the loss of access to the EU. According to the World Bank (2016), around 72% of all third nation investors said that access to the other EU nations through the UK Financial Services Sector was the main reason they invested in the UK (p. 4). Therefore, there could be major losses if the UK decided to pursue a complete severance and leave the European Single Market.

If the EU pursued the Norway Scenario and remained as a member of the EEA, it would continue to have access to the European Single Market. One of the "Four Freedoms" of the European Single Market is the freedom of capital flow (Hannan, 2016, p. 22). Therefore, the other EU nations will also be willing to move capital around from the UK to them to their investments. The Passporting Rights of the European Single Market would continue to allow the UK to provide financial services in the rest of the EU nations on behalf of their third nation investors, which would quell some of the fears and uncertainties that their investors have (Sampson, 2017, p. 165). This would allow the UK to remain attractive to its third nation investors and still maintain its relationships with the EU.

Freedom to pursue lucrative trade deals outside of the EU. By leaving the EU at any level, the UK will gain more freedom to pursue and set up their own trade deals with non-EU nations. According to Sampson (2017), the EU Customs Union is the restrictive factor that prohibits certain trade deals or trading with specific nations (p. 165). By cutting the EU Customs Union out of the Equation, the UK is free to pursue deals with its two fastest growing prospects in Asia and Africa that were slightly restricted under EU laws. According to the World Bank (2016), these markets are Eastern and Central Asia and Sub-Saharan Africa (p. 1). The UK already accounts for 4% of global GDP (World Bank, 2016, p. 1) and could definitely expand that by increasing trade and investments into smaller markets to help them grow.

Due to EU laws, the UK has relatively low market share in Eastern and Central Asia as well as Sub-Saharan Africa. According to the World Bank (2016), as of 2016, the UK exports to the region of Eastern and Central Asia only accounts for 3% of total exports to that region (p. 1). For Sub-Saharan Africa, UK exports only account for 6% of all exports to that region (World Bank, 2016, p. 1). The EU has restricted the UK at some level from competing in these markets and have made the UK trade more in the EU. According to Lynch (2010), RTAs are useful to garner more trade, make countries more economically attractive, give nations more political clout, make nations more economically stable and several other benefits (p. 7). However, these benefits tend to become worthless once the nation becomes large enough to function on its own (Lynch, 2010, p. 6). The UK has benefitted from trade with the EU. According to the World Bank (2016), the EU accounted for over 50% of the UK's exports (p. 1). However, this may just be due to EU laws. By expanding the consumer base to the rest of the world and following the trend of globalization, the UK has the potential to expand its revenue and to lower unemployment. According to Bergh, Mirkina, and Nilsson (2016), globalization reduces the poverty level and unemployment rate of nations through the addition of trade between established and growing nations (p. 708). Therefore, by expanding their presence in Sub-Saharan Africa and Eastern and Central Asia as well as other growing regions, the UK could greatly expand their export revenue and lower their unemployment and reduce the poverty levels of the nations they trade with.

Slight severance from EU economic legislation. This option has the least separation from the EU. As seen, this has numerous benefits that result in the retention of trade and FDI while simultaneously allowing the UK to pursue more trade outside of the EU. However, this does not garner the level of separation that the people of the UK are looking for. According to Sampson (2017), the UK will get the right to decide on some of their own social policies and economic policies, but they do have to adhere to all EU legislation regarding the European Single Market, which include competition, employment standards, quality standards, and consumer protection (p. 165). The UK will still have to pay to be apart of the European Single Market and would no longer have a vote on legislation that would affect them (Hannan, 2016, p. 22). Therefore, it is uncertain as to whether or not the UK would get to decide on its immigration policies or not. This is a huge issue for the people of the UK as national sovereignty and the ability for the English government to make decisions for England were the two aspects of this deal that they wanted, according to Los, McCann, Springfield, and Thissen (2017, p. 787). In addition to this, the UK may not have the separation they wanted from the European Productivity problem as they may still have to comply with EU immigration policy. National Identity is another key factor for English people and allowing more refugees in could cause serious problems socially for the UK. While the UK will certainly have fewer regulations that they must comply with, they will still have to deal the majority of the restrictions regarding trade in the EU. However, this may be a worth while sacrifice to maintain the high quality and high amount of trade that they do with their EU member nations.

Leave with no deal

The other extreme of leaving the EU is to leave without a deal. This Hard Brexit, as it is called, would mean the end of the UK's involvement with the European Single Market. That means they lose all of the ease of trade that they have been enjoying with the EU for the past fifty years (World bank, 2016, p. 3). The English will probably lose most of their trade relations with the EU and have to renegotiate all of their deals. However, they would be free. The UK would no longer have to pay into the EU budget, they would no longer have to implement legislation from the EU, and they would no longer have to submit to a foreign entity (Sampson, 2017, p. 165).

Consequences of the Hard Brexit Scenario

There are several results that will occur due to the severance of the two political and economic bodies. They will have far more political freedoms, as they will no longer be subjugated to the EU's Council of Ministers or Parliament, as described by Morphet (2017, p. 52). Economically, the UK will potentially lose much of their FDI from their EU partners as well as lose nearly all frictionless trade with those same partners (World Bank, 2016).

Legislative freedom from the EU. The people of England are tired of the EU and the rules and regulations that have restricted them over the past decades. According to Szczypińska (2018), the Council of the European Union is the primary decision-making body in the Union, and though it does make decisions based on votes, decides what choices get to be voted on (p. 18). The people of England are tired of the EU Council and other bodies, such as the Council of Ministers and the EU Parliament, creating legislations that hurt the EU (Morphet, 2017, p. 52). Los, McCann, Springfield, and Thissen (2017), the majority of voters in the UK prefer for England to be making decisions for the UK economy and social issues (p. 789). The people of the UK are tired of EU policies and decision-making strategies. They are ready to just be the United Kingdom. They are ready to leave the EU.

By separating themselves from the EU, the UK will no longer have to pay into the EU Budget or be governed by EU laws that effect the economy or society. The UK will only have to implement the rules of the World Trade Organization as they relate to quality standards, international copy right standards, trade rules, and Most Favored Nation tariffs; however, everyone, including the EU, already has to abide by these rules (World Bank, 2016, p. 3). Most importantly for the citizens of the UK, the UK government would be able to restrict immigration any way that they wish and can control social policy decisions without having to answer to a foreign court of officials (Sampson, 2017, p. 166). The citizens of the UK would be totally satisfied with this portion of the Hard Brexit, but unfortunately, the ramifications of Brexit go beyond just social policy.

Economic ramifications. As they have officially exited the EU, the UK will soon start to feel the short-term economic effects. The short-term effects will most likely be similar to the initial effects of 2016, when the people of England formally voted to leave the EU. However, According to Begg (2017), by mid-2017, the UK economy shifted back to its pre-Brexit vote growth (p. 303). Therefore, any immediate effects could be mitigated in the long run.

The immediate effects include a sharp decrease in trade as all current trade deals will have to be renegotiated to account for the new barriers (Begg, 2017, p. 303), a reassessment of the UK financial market (Begg, 2017, p. 303), a reduction in the value of the Pound Sterling (Sampson, 2017, p. 168), a reduction in productivity as trade slows (Sampson, 2017, p. 168), and a potential rise in inflation (Sampson, 2017, p. 168). All of these new issues will be hard for the UK to handle at the beginning. The primary causation of any problems will come from having to renegotiate all trade deals. According to Belke and Gros (2017), as of 2017, the total trade in goods and services between the UK and the EU was roughly 490 billion Euros, and the UK was the primary beneficiary of those deals (p. 320). All of those goods and services were able to go across borders with no tariffs and virtually no barriers. With the new WTO tariff of at least 4.4% (World Bank, 2016, p. 3) and any other new tariff that might occur between the UK and any of the EU nations, the new costs to trade will be massive. Thankfully, the UK already has several bilateral agreements in place that will not necessarily be affected by Brexit and can form more in the future (Morphet, 2017, p. 61-62). The decrease in trade and the new costs to trade will be significant, but this is not the end of the UK's trade with Europe. This is only the end of the EU dictating how that trade flows.

The UK's financial markets will have to be reassessed to account for this decrease in trade and productivity. According to Belke and Gros (2017), the total FDI investments into the UK are 1314 billion Euros, and the investments just from the EU are 985 billion Euros (p. 322). Now, not all of these will go away. The UK is still the second largest economy in Europe and the largest provider of financial services in Europe (World Bank, 2016, p.1). Therefore, the other EU nations will continue to invest in the UK and will continue to do business. Totally dropping all investments in the UK would be foolish and far from beneficial to anyone. However, a lot of those investments may decline in value or be totally withdrawn. According to the World Bank (2016), in 2015, just before the referendum, 31% of investors worldwide froze their investments in the UK to wait for the vote, and after the vote, many of those investors withdrew their investments (pp. 4-5). The loss in FDI will be the most substantial loss for the UK.

The Pound Sterling and productivity both dropped, and inflation grew in the UK immediately following the Brexit vote (Sampson, 2017, p. 168). All of these will hurt the national GDP. According to Sampson (2017), after the referendum vote the Pound Sterling depreciated 12% against the dollar (p. 168). The inflation grew from 0.5% to 2.6% following the vote (Sampson, 2017, p. 168). The productivity and growth output slowed from 1.7% in 2015 to 1.0% a year later (Sampson, 2017, p. 168). Despite all of these drawbacks, that will most likely happen again in the coming months, the UK still has the opportunity bounce back in a few years. According to the International Monetary Fund (2018), despite the rise of inflation and the slight decline in GDP growth, the unemployment rate is at an all-time low and wages are increasing at the same rate as inflation, which helps consumer spending (Sections 1 & 4). Therefore, while all of the immediate effects do not look positive and will be detrimental and significantly so to the UK, the data points to overall growth and continued prosperity for the UK.

Economic Recovery Options

In terms of options after the separation, the UK has several viable options that will allow them to capitalize on new opportunities and minimize some of the threats. Two of these options include the Swiss Scenario, which is securing multiple bilateral trade agreements, and the Free Trade Agreement (FTA) Scenario, which consists of the UK setting up multiple new FTAs with its most lucrative partners (World Bank, 2016, p. 2). Both options provide their own unique benefits and drawbacks. The Swiss Scenario would allow the UK more access to the EEA but would allow the EU more rights to restrict UK products (Morphet, 2017, p. 62). However, the FTA scenario would allow the UK total freedom from any Eu regulation, but they would lose almost all frictionless trade with the EU (World Bank, 2016, p. 3). Both offer more freedom from the current scenario which is a large encroachment on the personal freedoms of the UK and its citizens.

Swiss scenario. The two options for continued trade with the EU that will yield the most benefit to the EU are the Swiss Scenario and the FTA scenario. According to Morphet (2017), the Swiss also the left the EU, preferring not to be subjugated to all of the EU legislation as Norway did, and formed multiple bilateral trade agreements within the European Free Trade Association that gave them access to the European Single Market but with the option to adhere to certain rules and support various movements (p. 61-2). Much like the Norway Scenario, the UK would not have access to the European Customs Union and would not have the same level of free trade that they enjoyed in the past (World Bank, 2016, p. 2). However, through multiple by lateral trade agreements and adopting the Four Freedoms, the UK would be able to lower restrictions on their goods and services and would be able to lower tariffs and other border barriers, according to Morphet (2017, p. 62). This method of integration with the rest of Europe would allow the UK enough freedom to be able to set their own immigration policy, but still have some access to the European Single Market, which has been their most beneficial trade project.

Free trade agreement scenario. The other option is to form multiple FTAs with the nations in Europe the UK does the most business with. According to the World Bank (2016), Germany is the foremost partner for import and export goods with the UK (p. 1); therefore, Germany should be the primary focus of UK attention. This option allows for the least amount of integration. According to Morphet (2017), these trade agreements would be tailor fitted to benefit all parties involved and would be structured and negotiated similar to the current talks with Canada, the US, and Australia (p. 69). Under this option, the UK would only have to conform to health and safety regulations as well as pay the appropriate fees and tariffs to do business in the EU, but they would have total severance and function similarly to Canada and the US as a large independent trade partner.

Conclusion

After reviewing the evidence and forecasts of various professionals, it is the opinion of the author that the UK fully sever itself from the EU and, after doing so, seek the Swiss Scenario and join the EFTA. This option gives the people of England their national identity and sovereignty back, but it also allows UK businesses to maintain their relationships with their EU partners. In looking at the geography, the United Kingdom is made up of a collection of islands that are off the coast of the mainland of Europe. When Los, McCann, Springfield, and Thissen (2017) report that the people do not think of themselves as European but as English, Welsh, Scottish, or Irish, they are completely right (p. 789). The British Isles are unique and distinctly separate from the rest of Europe. Therefore, it makes sense for them to have their own identity and sovereignty as their situation is unique. However, they are also close to the mainland and have been tight partners for well over a century now. Therefore, they should not seek to burn all of their bridges but to maintain a healthy relationship. This relationship will not be seen as codependency, as the EU is often seen, but it will be one of mutual benefit. The UK should seek to negotiate bilateral trade agreements under the umbrella of the EFTA to attain separation but maintain trade with the EU.

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