

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Finance



Bachelor Thesis

**Structural Problems of the UK Trade Relations with
the EU after Brexit**

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BACHELOR THESIS ASSIGNMENT

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Structural problems of the UK trade relations with the EU after Brexit

Objectives of thesis

Identification of issues in the foreign trade connected with Brexit for different EU member countries. There are many problems expected in the sphere of structure, logistics, trade policy, standardization etc. The author will identify the most critical of them in accordance with the Agreement between EU and UK and analyze the ways of the solution adopted on both sides.

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The comparative analysis of foreign trade statistical data before and after Brexit and identify the consequences.

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<https://ukandeu.ac.uk/the-uk-eu-relationship-post-brexit/>

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Declaration

I declare that I have worked on my bachelor thesis titled "Structural Problems of the UK Trade Relations with the EU after Brexit" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 15.03.2023

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Structural Problems of the UK Trade Relations with the EU after Brexit

Abstract

Identification of issues in the foreign trade connected with Brexit for different EU member countries is one of the main objectives of the following thesis. There are many problems expected in the sphere of structure, logistics, trade policy, standardization etc. The author will identify the most critical of them in accordance with the Agreement between EU and UK and analyze the ways of the solution adopted on both sides.

In order to understand the effects of Brexit on international commerce, it is needed to compare and contrast statistics from before and after the event. In addition to the work's standard technique, the author also uses descriptive statistical metrics to better comprehend the subsequent shifts in trade ties. The author draws the conclusion that a decrease in trade volume in 2019–2021 was likely caused by Brexit itself based on a series of her findings, but it is crucial to understand that the trade relationship between the UK and the EU was obscured by a far more negative phenomenon, such as the pandemic of the coronavirus.

Nonetheless, the author comes to the conclusion that Brexit is to blame for the economic slump that occurred in the UK, which in turn reduced UK trade not just with the EU but also with other nations as a result of stagnant or even declining production in the Kingdom. But the author thinks that after the UK has recovered from the current recession and other bad occurrences occurring in the nation, collaboration with the EU will continue since both parties share the same culture, ideas, and values for many essential principles like democracy. The author also thinks that taking a side with Ukraine in the continuing military war would serve to remind European and British politicians that despite their differences, they are still closely tied.

Keywords: Brexit, EU

Strukturální problémy obchodních vztahů Spojeného království s EU po Brexitu

Abstrakt

Identifikace problémů zahraničního obchodu spojených s Brexitem pro různé členské země EU je jedním z hlavních cílů následující práce. Očekává se mnoho problémů v oblasti struktury, logistiky, obchodní politiky, standardizace atd. Autor identifikuje nejkritičtější z nich v souladu s dohodou mezi EU a Velkou Británií a analyzuje způsoby řešení přijatého na obou stranách.

Pro lepší pochopení dopadů Brexitu na mezinárodní obchod, musíme porovnat a porovnat statistiky před a po události. Kromě standardní techniky práce autor také používá popisné statistické metriky k lepšímu pochopení následných posunů obchodních vazeb. Autorka vyvozuje závěr, že pokles objemu obchodu v letech 2019-2021 byl pravděpodobně způsoben samotným Brexitem na základě řady jejích finančních prostředků, ale je zásadní pochopit, že obchodní vztahy mezi Spojeným královstvím a EU byly zakryty mnohem negativnějším jevem, jako je pandemie koronaviru.

Autor nicméně dospěl k závěru, že Brexit je na vině za ekonomický propad, ke kterému došlo ve Velké Británii, což zase snížilo britský obchod nejen s EU, ale také s jinými národy v důsledku stagnující nebo dokonce klesající produkce v království. Autor si však myslí, že poté, co se Spojené království vzpamatuje ze současné recese a dalších špatných událostí v zemi, spolupráce s EU bude pokračovat, protože obě strany sdílejí stejnou kulturu, myšlenky a hodnoty pro mnoho základních principů, jako je demokracie. Autor si také myslí, že postavit se na stranu Ukrajiny v pokračující vojenské válce by evropským a britským politikům připomnělo, že navzdory jejich rozdílům jsou stále úzce svázáni.

Klíčová slova: Brexit, EU

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List of abbreviations

UK	The United Kingdom
EU	The European Union
EC	The European Community
USSR	The Union of Soviet Socialist Republics
NATO	The North Atlantic Treaty Organization
GDP	Gross Domestic Product

1 Introduction

The author, like anyone else who was an active follower of news in 2016-2020, was observing a phenomenon that entirely changed the whole vector of European Integration and changed the way how matters stand in global politics – Brexit with profound interest. However, as time passed, the phenomenon as well as the whole movement itself was brought to the background by a series of other shocking and controversial events that were soon to follow the separation of the United Kingdom from the European Union, especially the pandemic of coronavirus.

Nevertheless, the subject is still rather relevant as the world managed to finally break the spell of the coronavirus pandemic and start a new economic expansion. For this purpose, the author wants to analyze the relationship between the United Kingdom and the European Union shortly after Brexit was announced and after the final separation that took place in the first months of 2020. The author believes that her analysis and insights that she will draw from quantitative analysis serve as the main methodological tool for the thesis and will help to better understand the perspective of future cooperation between the European Union and the United Kingdom.

Undoubtedly, the movement and what was happening in 2016-2020 is utterly unprecedented, so the author also takes an insight into what was happening prior to Brexit and what effectively led to Brexit becoming reality and not just a fantasy of some right-wing politicians of the United Kingdom. The author believes that her analysis is highly relevant in times of economic turmoil and political polarization that persist in the world as of the beginning of 2023 with the outbreak of the new war. Of course, it is wise to suppose that the future of the relationship fully depends on the nature of the cooperation between the two during the first years after the separation as it is the best time to either part ways entirely or start to cooperate and gain economic benefit from the trade once again.

The problem with the author's analysis is the fact that just 3 years have passed since the final Brexit happened and it is not possible to apply complex techniques of economic or even econometric analysis, such as the creation of linear regression. For this purpose, the author relies primarily on descriptive analysis that involves the calculation of various

indices, as well as a description of measures of central tendency. The author believes that by the time she will finish her bachelor's studies and continue on her master's and finish those studies as well, a sufficient amount of time will pass so that the author will be able to expand the framework of her current research and take an insight into the same problem from a slightly different perspective and with a slightly different methodology. However, as of 2023, the author believes that an analysis involving the use of mentioned techniques will be sufficient to understand the development between the two in the first stages after the separation.

2 Objectives and Methodology

2.1 Objectives

Identification of issues in the foreign trade connected with Brexit for different EU member countries is one of the main objectives of the following thesis. There are many problems expected in the sphere of structure, logistics, trade policy, standardization etc. The author will identify the most critical of them in accordance with the Agreement between the EU and UK and analyze the ways of the solution adopted on both sides.

In addition to that, the author also supposes potential scenarios for the development of the relationship between the European Union and the UK in light of recent circumstances that caused a fair amount of uncertainty to cause uncertainty about the future of the European Union and European security in the eyes of politicians and some scientists. After all, the author believes that despite all problems and economic recessions that were happening with the United Kingdom, the country still remains one of the world's leading economies, as well as the European Union, so understanding the ways of their future cooperation and partnership is essential to understand perspectives of the European region on the international arena.

2.2 Methodology

The comparative analysis of foreign trade statistical data before and after Brexit and identify the consequences. Apart from the basic methodology of the work, the author incorporates measures of descriptive statistics that will help the author to understand changes in trade relations before and after, such as chain index, base index, and calculation of measures of central tendency. In addition to the basic descriptive analysis, the author also focuses on creating various linear trends that will help to better explain the development of selected variables, such as exports, imports and trade balance from the perspective of the European Union.

The practical part of this thesis is based on the descriptive statistical analysis of the changes that were happening with the trade flow between the EU and the UK. For her analysis, the author uses dataset available from Eurostat and published in 2022, where the

figures are presented from the perspective of the European Union. In other words, the values of imports technically represent goods imported by the EU from the UK, and the value of exports technically represents the value of goods sent to the UK. The author selects the time period between 2011 and 2021 and she willingly splits the original database into two sections – the pre-Brexit period and the post-Brexit period. Effectively, as it was mentioned earlier in the theoretical part of the work, the final Brexit happened on the first of February 2020, but there are just two years of available data for the post-Brexit period, so the author also considers the years 2016-2020 alongside the years 2020-2021 to be highly affected by the Brexit phenomenon. Henceforth, the author considers the time period between 2011 and 2016 as the first time series with the time period from 2016 and onwards as the second time series.

The author's practical part is mainly based on three approaches, where the first one is a trend analysis, where the author creates a series of trends with the subsequent parameters:

$$y = \beta_0 + \beta_1 t \quad (1)$$

Then, the author considers two important indices used in time series analysis – base index and chain index, where the first one shows the percentual change in a given year compared to the base year, while the second index indicates the percentual change relatively to the value from the previous year. Those indices are calculated according to the following formulas:

$$Base\ Index = \frac{Value\ in\ a\ given\ year}{Value\ in\ the\ base\ year} - 1 \quad (2)$$

$$Chain\ Index = \frac{Value\ in\ a\ given\ year}{Value\ in\ the\ previous\ year} - 1 \quad (3)$$

When it comes to structural and territorial changes, these changes are analyzed using percentages, which reflect a given share respectively to the selected total value. Additionally, it is wise to say that the technique of of time series is also applicable for the case of structural changes.

3 Literature Review

3.1 Theoretical concepts of international trade

3.1.1 Concept of the international trade

International trade is a complex concept with reasons for trading between different nations being defined differently by various authors and academists. However, there is certainly some degree of unanimity towards the common definition of international trade, which is described as the exchange of capital, goods and services across international borders or territories. According to the Nobel Prize winner, Paul Krugman, trade between two different countries is conducted based on two fundamental assumptions – consumption's preference of diverse choice of brands and goods, which cannot always be achieved under autarky and zero trade with the rest of the world, and the economies of scale. (Krugman, 1993).

However, the author of this work would like to first highlight elements that make up the trading system and why the existence of international trade is essential needed. First, it is important to highlight that absolute advantage, which is a rather interesting concept that each of the countries, just like each of its inhabitants, can produce more with less resources. This system helps to create specializations and things in which this or that person, or the state, specializes and, by producing it, can buy those that it does not produce. An advantage enjoyed by a country participating in international trade is if it can produce a given good at a lower relative cost than other countries. Another name is the principle of comparative costs. According to the concept of absolute advantage, the only way for two nations to mutually gain from trade is for both of them to specialize in the manufacture of items that can be made with an absolute minimum of the resources that are available to the other country's trading partners.

The ability of humankind as a whole to utilize the resources of the Earth in the most effective manner is facilitated by the practice of specialization that is underpinned by the idea of absolute advantage. After all, the international division of labor that has resulted in this situation has led to the situation in which each category of commodities is produced in the nation that devotes the fewest number of resources to that category. Because of this, the

expansion of international commerce is being given such a high priority by national governments as well as by international organizations. This is due to the fact that the growth of international trade is of such critical significance for every nation on the globe.

This became apparent to the field of economic research as early as the beginning of the 19th century, when the main industrialization process, also known as the establishment of a large-scale mechanized industry, was finished in a number of different nations (Berlanstein, 2003). At the same time, the absolute costs of making items from a variety of industries have grown cheaper than they are in nations with lesser levels of economic development in a number of states. If the development of international commerce were to be based only on the concept of absolute advantage, then the leading nations would be required to discontinue their purchases of commodities from less developed countries. However, this did not take place.

In general, the theory of comparative advantage, which states that even if a country is not competitive, even if everything is more expensive than its partner-rival, then even in this case it is worth specializing in one thing and still participating in international trade, that even if a country is not competitive, even if everything is more expensive than its partner-rival. There is a widespread misconception that economics is nothing more than a type of common sense and nothing else; more specifically, that the conclusions that economists get from millions of formulae and from their models may, in reality, be reached merely on the basis of common sense. Even if a country is completely uncompetitive in the production of everything it makes, it still needs to specialize in the production of some product and participate in international trade (by exporting this product and importing other goods). When dealing with such, it is essential to focus one's efforts on areas in which there is the least amount of competition. And vice versa: a country that has an absolute advantage in everything has to specialize in the product where there is a comparative advantage, which is where the absolute advantages are the greatest. This is the logic that Smith and Ricardo developed, which, in general, served as the foundation for many further theories of international commerce (Mtigwe, 2006).

Specialization, a kind of labor division in which each individual or organization focuses its production efforts on one or a restricted number of tasks, was also highlighted.

If a person concentrates in one task, he is likely to be far more efficient than if he attempts to be a jack of all crafts. A specialist is able to focus on the tasks at which he excels: knowledge of the activity's subject and repetition of the same tasks enhance professional credentials. In addition, no time is lost when transitioning between jobs. Due to these factors, worker productivity increases as a result of specialization (Essaji, 2008).

The theory of gravity is another example that is both stunning and widespread in its applicability (De Benedictis, 2011). According to the theory of gravity, the force that causes two material things to be attracted to one another is directly proportional to the objects' masses and inversely proportional to the distance that separates them from one another. However, gravity may be found not just in the field of physics, but also in the field of economics. In addition, the action it has is objective, much like in physics. In formulating economic policy, this reality must be taken into consideration.

The interpretation of it is as follows: the economies of the two nations interact with one other in direct proportion to the size of their respective economies (GDP) and in inverse proportion to the distance that separates them from one another. If all other factors are held constant, a nation with a larger economy will have a greater turnover of goods and services in its international commerce than all other nations. At the same time, trade with nations that are physically close by is considerably more active than commerce with countries that are geographically distant and have economies of the same size.

Therefore, it should not come as a surprise that the three countries with the largest economies in the world - the United States, China, and the European Union - conduct the most trade operations among themselves. Furthermore, for the rest of the countries in the world, these three nations - or at least one of them - serve as the primary - or at least one of the primaries - trading partners.

Size and distance are not the only factors that might influence a situation, but they can play a significant role. As for the distance, the specifics of trade presuppose not only the existence of a border between countries, but also its infrastructure, the presence of sea lanes through which the majority of the volume of cargo transportation in the world is carried out, the complementarity of the structure of the economy and foreign trade

(including the uniqueness of the goods supplied), the availability of political, historical, migratory, and cultural ties between countries, a common or similar language, and a common or similar culture. In addition, these characteristics, on the other hand, bring about modifications to the overarching norm that emerges from the theory of gravity. It is possible to defy the pull of gravity, but doing so demands a significant amount of work. On the other hand, one needs very little effort to remain inside the gravitational field.

The expansion of international commerce with Russia is quite significant; yet the Russian market is not as sizable as the market in either Europe or the United States. With this in mind, it's possible that Russia has a higher level of interest in China than China has in Russia. Regarding the other economies that can be found in East Asia and the Pacific, both economically and geographically speaking, they are drawn to China with a great deal of interest.

Everyone who takes part in international commerce stands to gain something from it provided that it is conducted according to the concept of comparative advantage and that it is free of any impediments along its route. There is no nation on earth that is incapable of finding a niche for itself on the global market by capitalizing on the areas in which it excels and in which it possesses comparative advantages. Many of the countries that are currently considered to be among the wealthiest in the world have been able to attain their current level of prosperity specifically due to their engagement in international commerce. At the same time, international commerce is one of the sectors of economic ties between countries that is fraught with the potential for the greatest conflict (Ruggie, 2020).

3.1.2 Reasons for setting an international trade

Both a country's price competitiveness and the level of sophistication of its labor force are factors that contribute to differences in comparative advantage between nations. Price competitiveness refers to how closely a country's prices compare to those of its competitors. Competitiveness associated with product differentiation refers to how well a country's goods and services differ from those of its rivals. The extent to which a nation is endowed with fundamental resources as well as its level of economic development is a primary factor that contributes to these variations (income per capita, the general level of

costs and prices, the level of development of science and technology, etc.). The degree of availability of resources and skills determines the range of goods and services that a country is technically capable of producing.

On the other hand, relative costs, prices, and product differentiation factors determine the range of goods and services that are economically profitable to produce in that country; in other words, in the production of which the country has a comparative advantage over other countries (Ethier, 1982). There is no correlation between the level of economic power a country possesses and the trajectory of its political growth. Countries can better capitalize on their economic strengths and raise living standards through increased participation in international commerce.

Both the production and consuming sectors of a nation might potentially benefit from an increase in international trade's favorable effects. Countries are able to import certain goods and services if it is more cost-effective to do so than to manufacture them themselves. They are also able to receive some items and resources that would otherwise be virtually unavailable, since domestic producers would not be able to supply them (for example, rare raw materials or high-tech products). Through the stimulation of the transfer of resources away from those industries whose goods are most effectively replaced by imports and towards those industries in which the nation has a competitive advantage over its trading partners, international trade helps to assure production efficiency (Bowersox, 1995).

An examination of the challenge posed by the accumulation of advantages accruing from participation in international commerce reveals that these advantages may be maximized to the greatest extent in conditions of free trade, that is, in the absence of trade barriers such as tariffs and quotas. This thesis served as a guide for the international community as it worked toward the completion of a general agreement on tariffs and trade as well as the establishment of several regional free trade zones. In actuality, however, the benefits of international trade are frequently unequally distributed among nations. This leads to an unavoidable circumstance in which national interests are prioritized over international obligations, which in turn results in the unilateral implementation of protectionist measures. In addition, the path that is currently being taken by the

development of international trade is going in a direction that is unfavorable to those developing countries that have specialized in the production of a limited range of goods for which there is a gradual increase in demand around the world.

Because exports "earn" foreign currency and imports require financing in the same foreign currency, a nation's international trade activities have an effect on its balance of payments. Since the foreign exchange market serves as a channel for buying and selling foreign currency to finance trade, exports "earn" foreign currency and imports require financing in the same foreign currency. The exchange rate is impacted when a country engages in international commerce since these changes the value of the nation's currency in comparison to the currencies of other nations (Daniels, 2014).

3.1.3 Benefits of international trade for countries

There is never just one positive aspect to everything in this world; there is always something negative to balance it out. And despite the fact that countries have reaped numerous benefits from international commerce over the course of several centuries, many countries have also initiated many conflicts for economic reasons. It is the responsibility of the state to implement its policy in a way that will maximize the benefits while reducing the negative effects as much as possible.

It is essential to keep in mind that the people of any democratic society are the ones who have power, and that the manner in which they respond to the effects of international commerce is a direct reflection of those effects. In general, a largely beneficial occurrence was taken into consideration, which, if not handled appropriately by a country's economic strategy, might turn out adversely for that country (Stiglitz, 1989). That is why it is important to highlight the advantages that the country has based on international trade.

The power to develop innovative new technologies. As an illustration, the iPhone was assembled using components from China. Because Apple was the company that established the standard for smartphones, there would be no smart Android phones if there was no international trade.

A rise in the number of jobs. Products, which are in plentiful supply, are loaded onto ships and shipped elsewhere. Because of this, the production of it in such big amounts necessitates the use of manpower. As a consequence of this, international trade contributes favorably to the job prospects of the people living in each of the partner nations.

Enhancement of business operations. The market is growing as a result of international commerce, which means that you not only have to compete with local merchants, but also with those who are based in other countries. In addition, a level of rivalry that is both healthy and fierce is beneficial to the overall growth of the sector. The profits obtained from overseas sales might be put back into the business sector to further its growth.

Increasing the strength of political relationships. Having issues with imports and exports can have a severe effect on political ties, particularly if such relations are exclusively dependent on the economics of the combined entity. A good illustration of this would be the dispute between Russia and Belarus or the trade war that China is now engaged in with the United States. In the second scenario, preexisting policy inconsistencies were made significantly worse by challenges in international commerce between countries.

Filling foreign exchange reserves. The state can acquire funds in foreign currencies by participation in international trade.

Improvements made to the value of the national currency. Foreign investors who are willing to participate in other projects have a favorable impression of the state formed by international trade, which has a beneficial influence on the economy and, as a result, on the national currency. International trade also develops a positive image of the state among domestic investors.

Providing more options for customers. This has a number of positive and negative repercussions. The variety of items available in a given category on the market grows as a direct result of increased trade with other nations. On the other hand, it might be confusing

for customers, particularly if they have not yet settled on the criteria, they will use to select a product of sufficient quality.

Improvements in the effectiveness of production. When there is a lot of rivalry in a certain market, the producers aim to make their products as inexpensive as they can. Increasing output is necessary to turn a loss-making enterprise into a successful one. As a direct consequence of this, the market is flooded with items that are both affordable and of high quality.

The total amount of tax revenue received from purchasers continues to rise. Because of this, there is more money in the state treasury, which may be utilized to make improvements to the general welfare of the population.

3.2 UK-Europe relations

Of course, when analyzing the relationship between the European Union and the United Kingdom, it is inevitable not to take an insight into the history and understand what was happening between the two in the past, since history is something that tends to repeat itself, so it is wise to understand if the relationship between continental Europe and the United Kingdom had previously had similar periods of turmoil and misunderstanding.

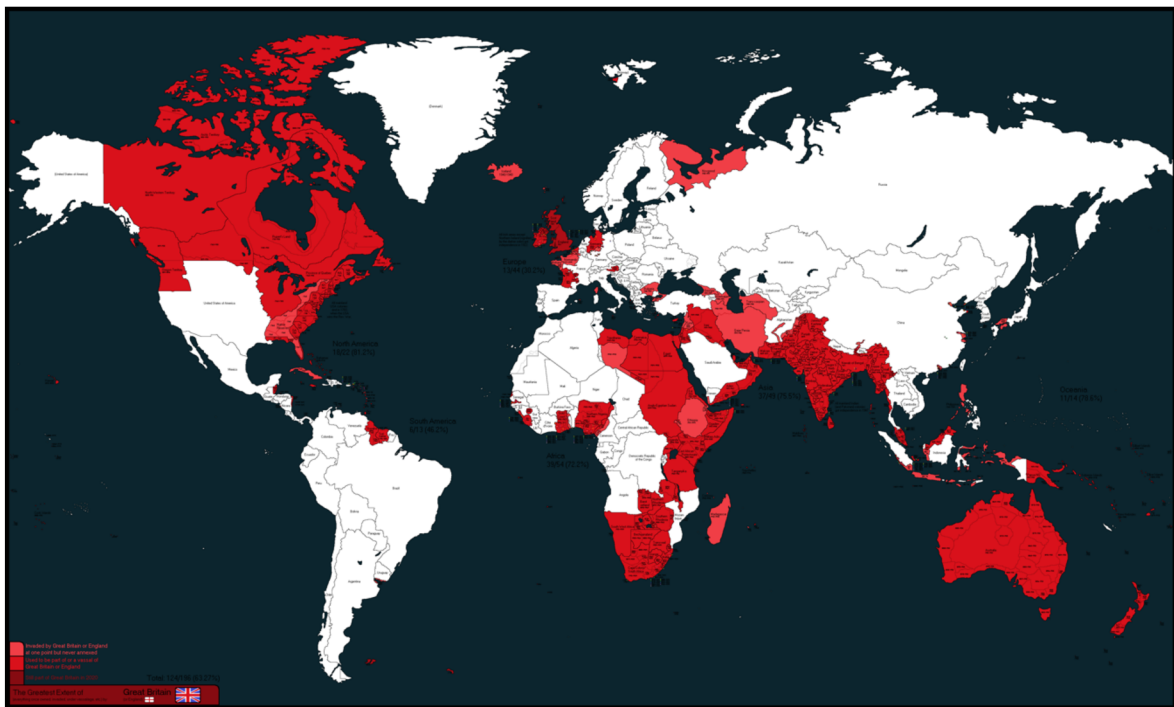
It is wise to begin the narrative by focusing on the fact that the United Kingdom has a very specific geographical situation that makes the islands and the kingdom situated on those islands a part of Europe, but not the continental one. The channel that splits Europe and the United Kingdom, which has an ambivalent name, which is different from the British perspective – the English Channel and La Manche for the overwhelming majority of European nations (Dauvin, 2019). This very channel is believed by researchers and historians to be the very thing that makes the relationship between Europe and the United Kingdom so special because it serves as a barrier for different aspects. For instance, when considering the history of Europe and especially the times when borders were volatile with smaller kingdoms fighting against each other for a small piece of land thus disputing the border set in a given agreement, the United Kingdom managed to avoid such problems as the natural waterfront barrier prevented others for setting their foot on British soil for centuries. In addition to being one of the most powerful fleets in the history of mankind,

the United Kingdom became one of the most impenetrable territories that helped the British to maintain their independence and focus on other agendas rather than constantly fighting with their neighbors (Seton-Watson, 1945). At the same time, this specific geographical position also led to the fact that the kingdom was not fully able to perceive some of European traditions and values due to the fact that the kingdom was not fully integrated into continental Europe. All in all, it is wise to say that authors and historians each have their own opinion about whether this specific geographical position of the United Kingdom brought more benefits than disadvantages for the kingdom. However, it is downright essential to mention the fact that the growing portion of skepticism from British people about their European heritage and history, the first king of an entirely new United Britain was a Frenchman from Normandy – William I the Conqueror, whose role in the creation of modern Britain cannot anyhow be underestimated. Undoubtedly, these very facts serve as a piece of evidence for the fact that the destiny of the United Kingdom and the European Union was inevitably connected even despite the presence of the natural barrier separating the two (Stenton, 2021).

Of course, as time went on and as the accumulation of power started to take place in France and other kingdoms, the interests of the British Kingdom and the French ones started to overlap, which led to an endless series of conflicts and wars, some of which lasted for more than 100 years in total, such as the case of Hundred Years' War, which ended in a horrific defeat of the British Kingdom and the winning of the French one. Clearly, when talking about those centuries (14th-17th), it is still wise to understand that economic cooperation and partnership were not really in the minds of rulers and kings, as the most common way of improving one country's prosperity and influence was to start a war and conquer more territory (Seward, 1999). However, as humankind evolved, so did philosophy and thinking leading to the creation of economic thought. Nevertheless, this economic thinking and reliance on a rational assessment of potential cooperation between kingdoms and countries were not widely used until the 20th century, so it is wise to consider the period that followed those constant wars and disputes as the period of colonialism, where a small number of countries possessing resources and capabilities ventured into the world in the search of new sources of wealth and precious resources since the domestic ones available to them were either wearing off or simply could have not been extracted with the level of technology available to them at those times. Among those

countries, there was the Spanish Kingdom, the British, the French, and the Portuguese, so this period can be considered as a new branch of rivalry between continental Europe and the British Isles, as now they were focused on fighting overseas for gaining colonial and imperial influence over others and what is even more important, gaining precious resources that will accelerate their economic expansion (Boswell, 1989). Nevertheless, it is essential to mention the fact that the concept of trade was becoming more and more important as colonial empires were actively engaged in trading with their colonies. All in all, this period can easily be characterized as a successful one for the British as the kingdom became the world's biggest and most prosperous empire with colonies scattered all around the globe and more importantly, with one of the wealthiest ever colonies being in their hands – North America (Lange, 2006).

Figure 1, British colonial empire at its peak



Source: Britannica, 2023

Given that the overwhelming majority of European kingdoms were not united and integrated into something bigger and more powerful, the British were primarily competing against Spanish and French empires, with the rivalry being especially intense with the French since their interests overlapped in almost all continents and parts of the world, including America (Geloso, 2020).

From the 19th century onward, the relationship between the British Empire and Europe was primarily defined by the French empire's relationship with the British, since the French empire, led first by the House of Bourbon and then by Napoleon, was the main negotiator and representative of European interests on the continent. Due to Napoleon's rise and his excessive expansionist strategy that led to almost unanimously claimed supremacy of the French empire over other European kingdoms, this relationship was soon to become the key point that set the whole vector of development for cooperation between the British Empire and Europe since Napoleon finally decided to conquer the British empire. He wisely negotiated a continental blockage of the British Empire to prevent the country from dealing with its European partners, knowing that it was impossible or would have cost hundreds of thousands of lives and precious resources (Juhasz, 2018). This embargo and the Russian empire's refusal to comply with Napoleon's demands led to Napoleon's invasion of Russia, his defeat, and his exile to Elba. However, Napoleon returned and tried another campaign, which failed and ended with the Battle of Waterloo, where the First Duke of Wellington defeated Napoleon and brought a period of prosperity to the British Empire when no other power could stop it from expanding and exploring new territories with precious resources. Europe was again plagued by revolutions and wars as societies changed (Black, 2010).

All in all, a turning point in the relationship between Europe and the British Empire happened in the 20th century when the country had to join the alliance with French and Russians to stand against the rising power of the German Empire and the Austro-Hungarian one, which both were not at all happy with the state of affairs and colonial hegemony of French and British empires (Perraudin, 2010). After the First World War and during the period between the two wars, it is wise to consider that the United Kingdom started to integrate more and more into European society participating in various partnerships and being extremely interested in affairs and conferences that were happening on the continent. However, this integration was soon halted due to the rise of another power in Europe once more –Nazi Germany and their leader who wanted to attempt something similar to what was done by Napoleon (Buchanan, 2008). All in all, he did not succeed as the Second World War was won by the British Empire and their allies such as the USSR and the United States of America. Nevertheless, the end of the Second World

War and the role that the Soviet Union and the United States played there led to the change in the global order when colonial empires such as France and British were soon to be put into the background due to the amount of extensive damage caused to them during the war. Slowly, Europe was being divided into spheres of influence thus leading to a bipolar world, with Western states and the United Kingdom belonging to the camp of the United States and NATO and Eastern states joining the camp of the Soviet Union, which created the Warsaw Pact. Warsaw Pact was destined to become the organization opposed to NATO and countries that were the part of the alliance. Eventually, this step polarized the world even further by now officially drawing a line between countries supporting either side (Deighton, 2016).

However, during that time, the first steps of direct integration of the United Kingdom into continental Europe started to take place. As colonial empires slowly started to crumble and colonies gained independence, the situation of France and the British Empire started to deteriorate. Yet, the French and their European neighbors managed to find a solution of not being entirely dependent on the United States and form a strong block that will soon be able to maintain itself and represent a new world power. In 1951, the very first treaty of cooperation between European nations was signed in Paris helping the continent to prevent potential wars from breaking out and increasing the degree of integrity between the six states who signed the treaty – Italy, France, West Germany, Belgium, Netherlands, and Luxembourg. The signing of the treaty was soon followed by a series of other treaties and the setting of the European Economic Community, which now pursued the common interests of the member states. This shaped a new vector of development for the British – European relationship, as the United Kingdom understood that its influence and power can soon perish if the country will remain on its own.

The European Free Trade Association (EFTA) was created in 1960 as an alternative to the European Economic Community (EEC), which subsequently evolved into the European Union. The United Kingdom (UK) was one of the founding members of the EFTA. The EFTA was established as an alternative to the EEC (EU). The United Kingdom was reluctant to join the European Economic Community at the time because it wanted to keep its relationships with its former colonies and the Commonwealth on a more personal level. By becoming a member of EFTA, the United Kingdom was able to keep its access to

the European market while also gaining greater influence over its own economic policy. The European Free Trade Association (EFTA) was a more lax economic alliance than the European Economic Community (EEC), with less of an emphasis on political integration and more of a focus on free trade. As a consequence of this, the United Kingdom considered joining EFTA to be a more adaptable alternative that would let it to follow its own economic interests (Turner, 2013). Despite this, the United Kingdom's participation in EFTA didn't last very long. When it became apparent that the economic gains that the UK was receiving from EFTA were insufficient, the United Kingdom submitted an application to join the European Economic Community in 1961. The EEC was considered the more desirable alternative due to the fact that it offered the possibility of deeper economic integration as well as a wider market. After fruitless attempts to join the EU and two vetoes cast by French President Charles De Gaulle, the United Kingdom finally managed to join the community in 1973 on conditions favorable for both parties but more for the European community (Davis, 1997).

As time progressed, the United Kingdom started its economic expansion and gained power, the first misunderstandings and issues between the United Kingdom and the community started to arise in the 80s, when the prominent figure of Margaret Thatcher took the role of the prime minister. Margaret Thatcher's attitude towards the European community can be analyzed from a different perspective, but it is vital to mention the most important contribution of the Iron Lady – the UK rebate which finally happened after a series of negotiations and talks between the UK and the EC when it was finally concluded that a new financial mechanism will be applied leading to the reduction of the contribution of the United Kingdom to the budget of the European community (Spence, 2012). Some authors and researchers believe that this was the turning point in the relationship between the United Kingdom and continental Europe that partially influenced and prompted the Brexit movement to emerge, as both parties were expressing doubts about the fact of whether the United Kingdom is really a part of Europe (Keedus, 2018).

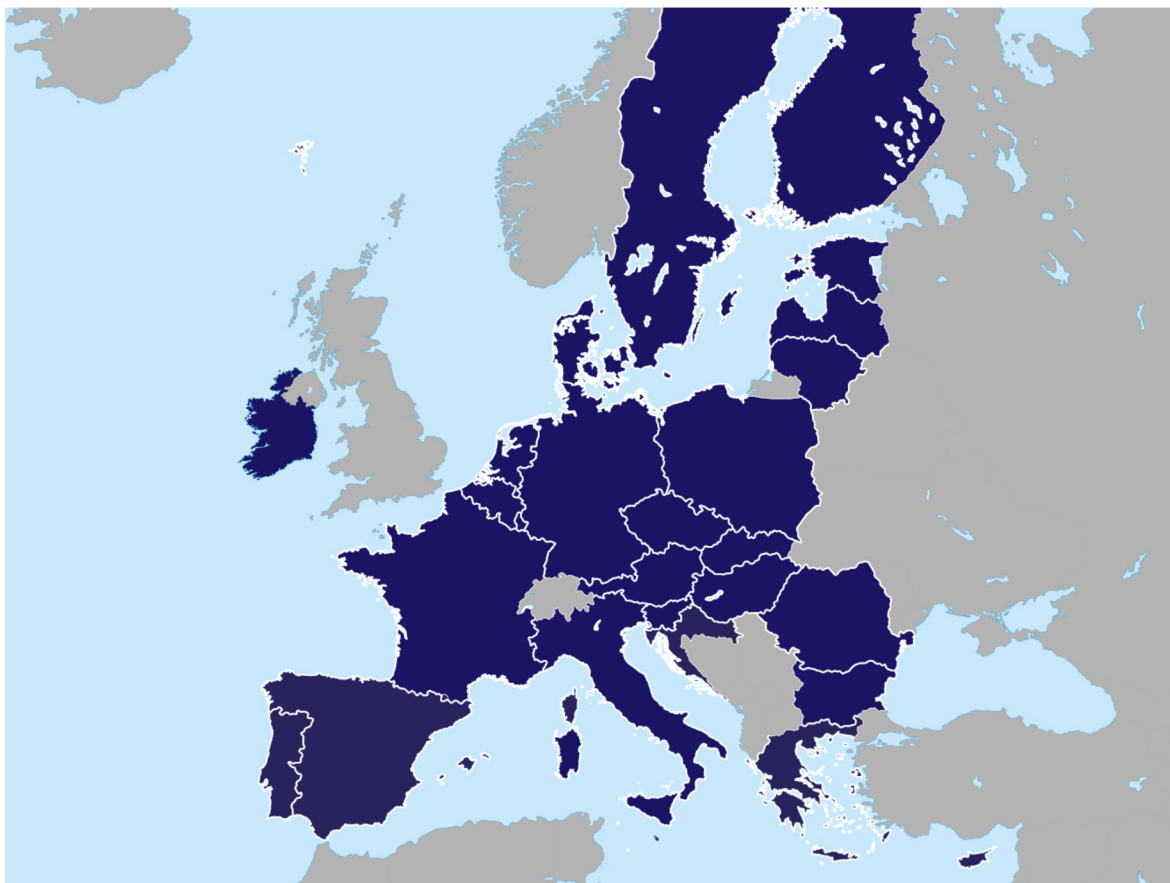
In addition to that, it is also wise to mention that compared to the rest of the European member-states, the United Kingdom was among the small number of states who had an opt-out on the acceptance of the common European currency, which did not also help to

smooth the relationship between the two and calm down people feeling skeptic about the presence of a member having so many privileges compared to others (Saia, 2017).

Obviously, it is pretty much visible that the relationship between the United Kingdom and generally British Isles with continental Europe was never easy, so it is believed that the relationship will continue to develop in the very same way for the years to come, according to some scientists, historians and researchers.

3.3 EU trade policy

Figure 2, EU member-states as of 2023



Source: European Union Agency for Fundamental Rights, 2022

In order to better understand the potential situation of the United Kingdom and the European Union in terms of trade, it is essential to take an insight into the tools used by the European Union to regulate and coordinate trade between the members of the Union, countries having agreements with the Union and the rest of the world. Of course, in the 20th century, when the European Union was rapidly developing and reaching its today's

shape, the role of trade was not at all underestimated and trade and partnership were preferred to constant conflicts killing thousands and sometimes even millions of people on annual basis. For this purpose, it is wise to mention that the European Union has made it to almost all stages of Economic integration that today helps the union to stay buoyant and economically prosperous. The union has a common customs code and common external tariff for all third countries trading with the Union, regardless of the member state and place where the good entered the European Union. Afterward, the Union managed to make it to the stage of monetary union integration, which proves the fact that the integration was successful, and the fundamentals of the economic community are being followed by every member (Gormley, 2009).

EU commercial and trade policy belongs within the responsibilities of the European Commission, which has its seat in Brussels among other fundamental European institutions. Of course, when considering the trade and commercial policy of the European Union, it is wise to understand that trade protection tools do not really differ much around the globe as the concept of trade and trade protection does not really differ from one country to another. Yet, there are some serious unique features of the trade protection mechanism of the European Union (Dur, 2008).

Thus, it is wise to start the chapter by mentioning some of the most important trade protection tools used by the European Union, which are:

- 1) Tariff protection or tariffs are set on products being imported to the European Union by other countries. For some countries with whom the European Union has a specific free trade agreement or generally any trade agreement, some tariffs might be alleviated or taken away entirely. However, it is also wise to mention that some goods and industries present serious importance for the European community, and the value of tariffs can be significantly high, such as in the case of agrarian goods being imported to the European Union. This is done for the protection of the single market and to ensure fair returns for European farmers under the Common Agriculture Policy.

- 2) Volume protection or quotas are used for the control of the total volume of goods being imported to the European Union in terms of quantity. In the past, this was the most important trade protection tool used by European Union but over time, the Union switched more to tariff protection due to the pressure of the WTO and the global movement for trade liberalization.
- 3) Fighting with government-supported and state-owned enterprises is another essential tool that ensures not only fair trade and supports the single market, but it is also something that eradicates unfair competition. The European Union tends to assess and evaluate goods entering the European Union thus preventing companies that are excessively supported by governments to enter the single market.
- 4) Anti-dumping are measures that prevent dumping, i.e., export of goods at the price below the normal one which is usually exercised with the desire to inflict a serious amount of damage to competitors (Dur, 2008).

Then, after briefly taking an insight into the most widely used trade protection tools of the European Union, it is wise to understand that the trade of the EU is generally categorized as either intra-trade or extra-trade of the European Union, where intra-trade refers to the trade within the trading block and between the members of the European Union, such as the trade between France and Germany, while the extra-trade refers to the trade that takes place between the EU member states and other countries. Yet, it is wise to understand that some countries and blocks have preferential access to the European market and some countries even form a part of the European single market without officially being recognized as member-states of the European Union (Persson, 2007).

EFTA or the European Free Trade Association is a block consisting of small yet wealthy nations that are situated in Europe and which all form a part of the single market and enjoy no barriers in trade with the European Union. These countries are Iceland, Lichtenstein, Norway, and Switzerland, all of which at some point expressed a profound interest to join the community but soon dropped the idea due to the improvement of the national economical situation. However, the EU considers those countries as the closest

ones to the Union due to the same vector of development, political agenda, and geographical situation of them (Turner, 2013).

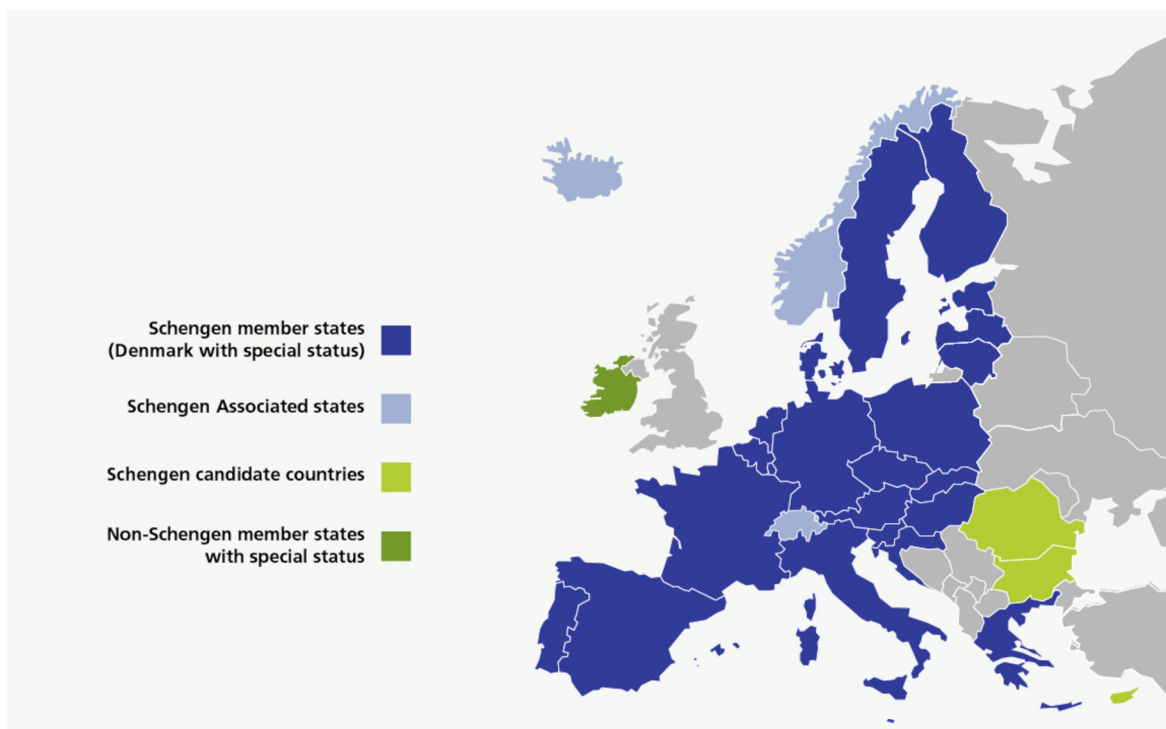
Figure 3, EFTA countries



Source: Pariona, 2018

Also, when talking about the trade of the European Union, it is wise to understand that there is also a specific union of countries that unites some of the members of the European family and other countries, which form part of EFTA – Schengen area. Schengen area is a borderless area between the countries that are accepted into the zone. This stimulates trade within the single market and increases the speed at which goods can travel between different destinations inside the European Union. However, there are a few exceptions, such as Romania, Bulgaria, Cyprus, and Ireland with the first three expressing their desire to enter the borderless zone but facing a rejection out of concern for the safety of the single market and the fourth country not willing to join it out of national security concerns. Yet, it is also wise to mention that another factor that was creating a wall between the European Union and the UK was the fact that the UK stuck to the main agenda as Ireland towards entry into the borderless Schengen area (Popa, 2016).

Figure 4, Schengen area



Source: Rodriguez, 2022

In addition to all that, it is also wise to mention that the fact that the EU also participates in the WTO negotiations, makes the Union comply with the most crucial agenda. For this purpose, it is wise to say that the European Union follows some of the most important principles adopted by the WTO, which include:

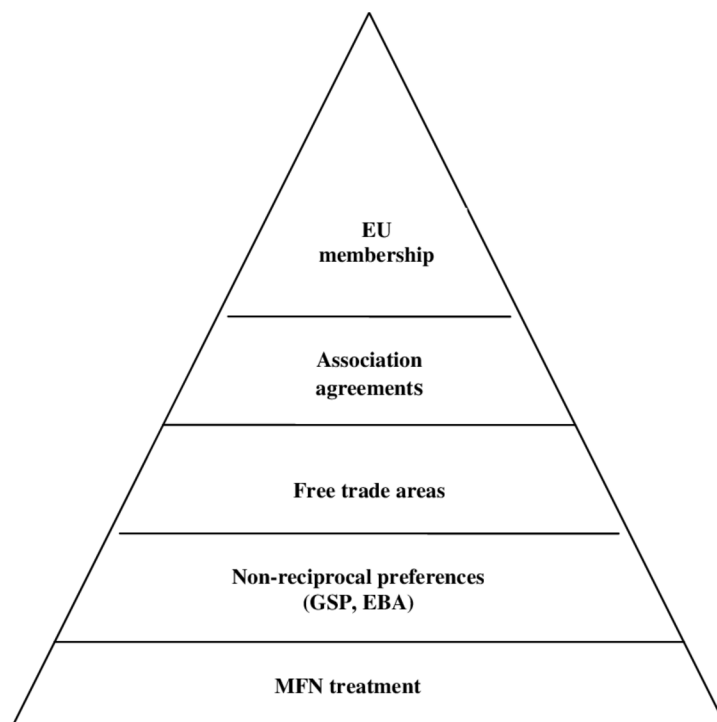
- 1) The non-discrimination principle consists of the most favored nation component and the national treatment policy. The most favored nation or MFN suggests that a country should not treat some countries better than others and they should provide the same conditions to everyone without any specific preferences causing unfairness to other major players. The second component suggests that a country does not have to artificially create barriers for the entry of goods using national regulation as a trade protection tool. However, when it comes to the second component, it is rather complicated in the case of the European Union due to the fact that the Commission ensures the protection of all markets belonging to the

single one simultaneously with the protection of the well-being of citizens of the EU.

- 2) Transparency (all negotiations and trade agreements have to be transparent and announced to the general public).
- 3) Safety values (restriction of trade in specific circumstances where the well-being of inhabitants is being put in danger).
- 4) Reciprocity (limiting free-riding in international trade).
- 5) Binding and enforceable commitments (Hoekman, 2002).

Finally, it is also wise to mention that apart from trading with the EFTA and other countries, the EU has a series of foreign trade agreements in place with other countries, such as CETA with Canada, the EU-Japan agreement, and what is even more interesting, the EU has a customs union with Turkey but surprisingly, there is no free trade agreement with the United States of America, which is one of the key partners of the European Union. Below, the author presents the preference pyramid of the European Union (Engelhardt, 2015).

Figure 5, pyramid of trade preferences



Source: Wiley Library, 2022

3.4 Phenomenon of Brexit

3.4.1 Historical overview

Finally, it is essential to take an insight into one of the most important occurrences in the history of the European-British relationship – Brexit. Interestingly, the whole movement and the eventual separation of the UK from the EU was predicted in the 60s of the previous century by the person who two times prevented the UK from entering the European community – Charles De Gaulle, who justified his two vetoes by the fact that the differences in interests of the UK and Europe are too powerful to ensure that the two will be able to co-exist within one community for long. Of course, this does not necessarily mean that it was the main reason for blocking the UK from entering into the European Community, especially when considering that De Gaulle was the one who was in favor of intergovernmentalism rather than supra nationalism, which downright scared De Gaulle who was interesting in having a strong France (Ramiro Troitino, 2018).

All in all, as time went on and the two were part of the same union, the ideas of Euroscepticism started to accumulate more and more in the rhetoric of British politics and notably, in the camps of the British Conservative party, who might have not been entirely in for the eventual separation of the United Kingdom from the European Union, but it might have been used as a tool for gaining the affection of voters, especially given the fact that the conservative party wanted to continue being in the head of the British Parliament. However, it all remained rumors and polemics until the year 2016, when British Prime Minister David Cameron finally called for a referendum that was about to take place in the second quarter of the year eventually leading to the distribution of votes, where 51.9% of the population votes in favor of parting ways with the EU and 48.1% percent of the population voting in favor of remaining in the Union. As time went on and more opinion polls were released in 2022 and 2023, following economic recession and troubles that were soon to be met by the United Kingdom, the distribution of opinions has changed significantly with the positive opinion about being a part of the European Union prevailing, which might serve as a piece of evidence for the fact that the British population expected a slightly different economic outcome, or they simply did not fully understand the role of the economic integration of the European Union on the British economy (Jawad, 2019).

Nevertheless, the prime minister who organized the referendum resigned, and long negotiations for a treaty were initiated by the new British prime minister – Theresa May. However, the whole withdrawal process and negotiations were not at all simple and easy-going as at some points, it was more likely that there will be a so-called “harsh” Brexit with no treaty in place at all with the European Union, which seemed rather likely given the rhetoric that was prevailing in the minds of European politicians who were not just surprised, but utterly astonished by the fact that there will soon be the first member to trigger the special exit clause included in the Lisbon treaty of the European Union (Vandenbussche, 2022).

Finally, after the series of failed ratification by the British Parliament of the proposed agreements by both May and the European Union, she resigned from her post and was succeeded by Boris Johnson who finally managed to announce on the 24th of December 2020 that the deal with the European Union on trade was reached.

However, it is wise to say that the development of Brexit might have been completely different if not for the pandemic of the coronavirus that happened in 2020, a few months after the UK finally left the EU, so the main agenda for the two was not negotiating a new deal and thinking about the future cooperation between the two but ensuring the safety of their citizens and tackling the economic consequences of the pandemic (Cubells, 2021).

3.4.2 Effects of Brexit and post-Brexit relations

According to the findings of study carried out by Bloom (2019), it is anticipated that the United Kingdom's firms will suffer economically as a result of the Brexit. According to the author's point of view, the implications of this development will be the most severe for businesses that are affiliated with the EU, such as major multinational firms. A significant contributor is the rise in economic hurdles that are anticipated to appear once the United Kingdom leaves the European Union. It is probable that limits on commerce may result in an increase in both the cost and complexity of transactions with foreign company. Large firms, which are frequently highly reliant on international commerce for both their income and their profits, can be particularly badly struck by this phenomenon (Bloom, 2019).

Moreover, the impending Brexit might have a domino impact on other parts of the economy of the UK, such as the accessibility of skilled labor and investment in businesses. Companies, particularly those operating in industries such as finance and technology, which rely largely on talent and investment, can be adversely affected by these factors, as the author argues, especially if they operate in a global economy. The author implies that there is a possibility that the British economy would suffer as a consequence of the interaction of these several factors.

Bloom (2019) comes to the conclusion that Brexit will have a varied and complicated impact on business in the United Kingdom, with certain companies and industries being affected more than others. Overall, this will be the case. This is due to the fact that following Brexit, the influence that the EU has on the UK will be greatly diminished. Nonetheless, the author is of the opinion that major companies engaged in international commerce would be among the most negatively impacted by Brexit, and that these companies may need to make adjustments to their business plan in order to successfully navigate the challenges brought on by Brexit (Bloom, 2019).

The fact that Bush and Matthes (2016) did a meta-analysis and found that the results demonstrate that Brexit would have far-reaching effects for the economy of the United Kingdom is obviously something that has to be taken into consideration. Authors are sounding the alarm that the not-too-distant future will likely be marked by economic instability and the possibility of catastrophe. On the other hand, they bring to light the difficulties associated with making an accurate assessment of the effects of Brexit because there have been no instances in the history of the EU that are analogous to this. In this scenario, it is difficult to forecast how severe the blow to the economy of the UK would be and to what degree it will occur. According to the findings of their investigation, Bush and Matthes came to the conclusion that the Brexit will have major and perhaps long-term repercussions for the economy of the entire world. Nevertheless, the nature and scope of these repercussions are not yet entirely understood (Bush, 2016). According to the findings of a poll that was carried out by Bisciari, the negative effects of Brexit on the economies of the UK and the EU might be greatly exacerbated in the long run if an agreement is not reached (2019). It's possible that not everything is as terrifying as it looks since there is always room for negotiation and compromise. According to the results of a poll conducted

by Bisciari, the potential adverse impacts of Brexit might be lessened by reaching an agreement that benefits both parties. This is the case even though it is quite likely that Brexit will have a significant impact on the economy of both the UK and the EU27. The adverse impacts of Brexit on British businesses and the economy as a whole may be lessened by taking steps such as negotiating a trade deal that guarantees continued access to the single market of the European Union after the UK leaves the EU. The findings of the Bisciari study underscore the necessity of reaching an agreement that is favorable to both sides in order to mitigate the anticipated negative impact that Brexit will have on the economies of the UK and the EU. If such an agreement is not achieved, the situation might grow even more perilous for all of the countries involved (Bisciari, 2019).

According to the findings of McGrattan and Waddle's (2020) research, the impact that Brexit would have on foreign investment and production will be multifaceted and multifaceted. It is quite likely that Brexit will have a significant impact on investment in the United Kingdom; however, the nature and scope of this impact will be primarily determined by the policies that the United Kingdom government chooses to implement in reaction to Brexit. Nonetheless, the Brexit might make the United Kingdom a less desirable location for investments made by overseas investors. If there is a rise in trade restrictions and regulatory bottlenecks after the divorce, this might very well be the outcome. It is possible that this could result in a decline in foreign investment, which would slow down both the expansion of the economy and the creation of new jobs (Waddle, 2020).

3.4.3 Structural change

Many politicians and economists in the UK had high hopes that the country would be able to benefit from new trade opportunities after leaving the EU (Clarke, 2017). They believed that if the United Kingdom severed its ties with the European Union and its trade agreements, it would be able to conclude new trade agreements with countries around the world, which in turn would help improve the economy of the United Kingdom.

In fact, over the past few years, the UK authorities have been actively negotiating new trade deals with countries such as the United States of America, Canada and Australia.

They said the agreements would open up new markets for British goods and services, helping the UK become less dependent on the EU market.

Both the UK and EU countries are losing wealth in any of the proposed Brexit scenarios. Some smaller countries with very close trade ties with the UK, such as Ireland, Luxembourg and Malta, are losing even more than the UK itself (Bisciari, 2019). In general, the conclusion of new trade agreements outside the EU (India, Canada, USA, China and other big economies) cannot fully offset the losses of the UK from Brexit, and the EU-27 countries lose even more in this scenario due to trade diversion. A comprehensive trade agreement between the EU and the UK would certainly be preferable to leave or come to a new one. But in light of the stunning process surrounding such a new and comprehensive trade agreement, there is an alternative to a hard but reasonable Brexit, in which the UK will not only return to WTO rules, but also remove all existing tariffs on the other 27 EU members. For the UK, this brings the least loss, while the 27 EU countries at least lose less than with a hard Brexit. However, there is great potential in trade relations between the UK and the rest of the EU even after Brexit.

According to Felbermayr (2018), the author suggests that the UK must accept the reality of Brexit and its impact on the economic prospects of the country going forward (Felbermayr, 2018). It is now clear that the United Kingdom's drive to find new trading partners outside the EU will not materialize as they expected and the country will find itself entangled in the series of problems when finding for new international partners and concluding new trade deals (De Vries, 2017).

One of the main reasons that Brexit supporters put forward was that the United Kingdom would be able to find new trading partners outside the European Union, which proved to be quite difficult to achieve. According to Felbermayr (2022), as the globe approaches the two-year anniversary of Brexit, it becomes increasingly clear that this argument was wrong (Felbermayr, 2022).

In addition to the change in the territorial or geographical structure of trade as a result of Brexit, there will also be significant upheavals in the structure of agriculture in the United Kingdom. Relying on agriculture is one of the industries that is expected to suffer

as a result of the current situation. The unique policy of the EU to protect its own agricultural sector makes it difficult for non-EU countries such as the United Kingdom to sell their products on the EU market, so the country is believed to suffer tremendous losses because of that. When exporting to the EU, the UK will face new trade barriers such as tariffs and non-tariff barriers such as regulatory compliance requirements. Because of this, the value of exports will increase, and the competitiveness of agricultural products produced in the UK in the EU market will decrease, as mentioned by (Dwyer, 2018).

4 Practical Part

The dataset used for the analysis of trade flows is presented in Table 1.

Table 1, dataset for the analysis

Year	Imports, billion €	Exports, billion €	Trade Balance, billion €	Trade flow, billion €
2011	189.5	251.3	61.8	440.8
2012	188.6	268.8	80.2	457.4
2013	183.5	273.5	90	457
2014	181.9	290.9	109	472.8
2015	184.7	316.4	131.7	501.1
2016	180.4	315.9	135.5	496.3
2017	191.5	320.6	129.1	512.1
2018	196.6	319.9	123.3	516.5
2019	194.3	320.2	125.9	514.5
2020	169	278.3	109.3	447.3
2021	146	283.6	137.6	429.6

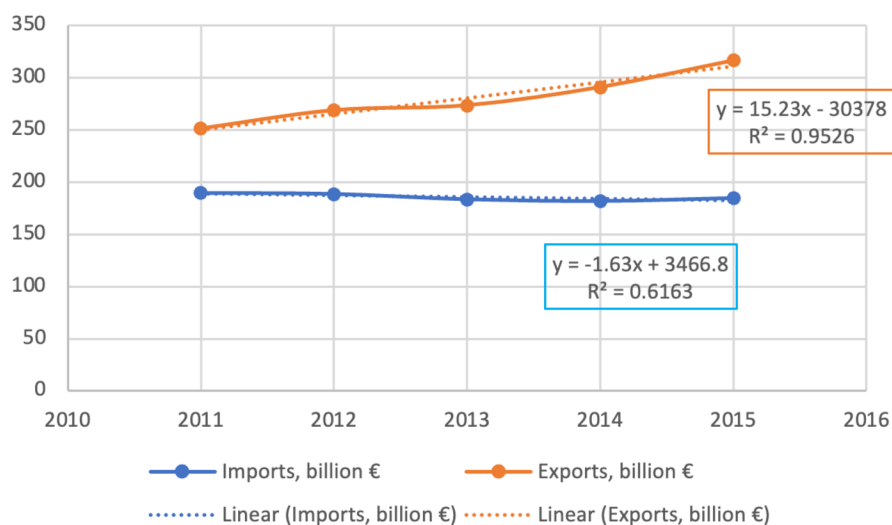
Source: Eurostat, 2022

In this table, the author indicates the pre-Brexit period with the yellow colour (from 2011 to 2015) and the post-Brexit period with the red colour (from 2016 to 2021). For the analysis, the author uses data obtained from the Eurostat and also from OEC. In addition to that, the trade classification used by the author is HS classification, which stands for the harmonized classification.

4.1 Trade flow pre-Brexit

In Figure 6, the author proceeds to the analysis of dynamic behind imports and exports from the European Perspective in the EU-UK trade prior to the Brexit phenomenon.

Figure 6, imports and exports development in the pre-Brexit period between 2011 -2016



Source: own processing based on Eurostat

Clearly, it is visible that there is a slight gap between the value (it is the value not the number) of exports and imports in the trade relations between the UK and the EU, practically suggesting that the EU exports more to the UK than imports from the Kingdom, so the EU has a trade surplus, while the situation of the UK is absolutely positive – the country has a trade deficit in the trade with the European Union. What is even more interesting is the fact that this gap has been increasing from 2011 until 2015, what is also underpinned by trends created for exports and imports. According to the trend for exports, it can be said that the average annual change for the value is an increase of 15.23 billion euros, while the annual change for the value of imports is a decrease of 1.63 billion euros. Henceforth, the EU was exporting more and more, while importing less from the UK, which is surely enough expected given the geographical position of the UK, but the negative tendency for the UK cannot be categorized as positive, so it might have prompted the country to consider the idea of Brexit even more due to their fear of becoming too dependent on their European neighbors. Nevertheless, the author also calculates the chain index and base index (year 2011 is taken as a base year) for two values. The author is formulas (2) and (3) from the methodology to conduct the calculations. The output is presented in Table 2.

Table 2, descriptive analysis of imports and exports for the pre-Brexit period

Year	Imports, billion €	Chain Index	Base index	Exports, billion €	Chain Index	Base index
2011	189.5	-	1	251.3	-	1
2012	188.6	0%	0%	268.8	7%	7%
2013	183.5	-3%	-3%	273.5	2%	9%
2014	181.9	-1%	-4%	290.9	6%	16%
2015	184.7	2%	-3%	316.4	9%	26%

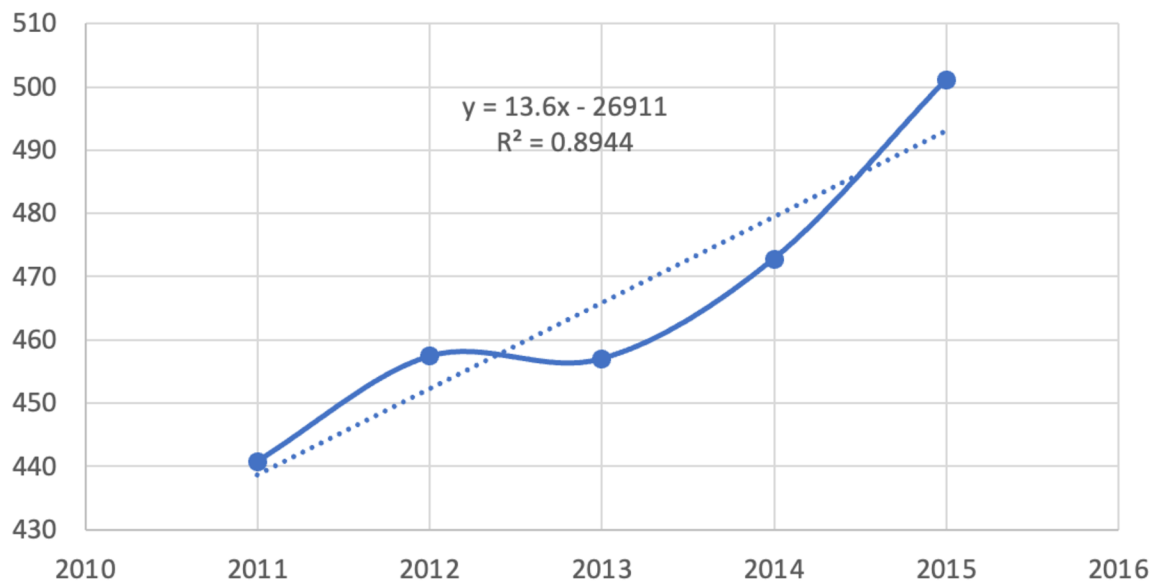
Source: own processing based on Eurostat

Clearly, after looking at the output of the index analysis (Table 2), there was almost 3% decrease in the value of imports from the UK in 2015 compared to the base year, 2011. Yet, the year 2015 slightly improved the situation when the UK registered a 2% increase in the value of goods exported from the UK to the EU, which is good for the country. Yet, the dynamics of imports from the UK to the EU or the UK's exports to the UK is negative one with a stable decrease.

On the contrary, the value of exports from the EU to the UK, respectively, the value of UK's imports from the EU was rapidly increasing and by the year 2015, there was a 26% increase compared to the base year and as chain index indicates, there was a rapid increase year by year in the value of exports. Overall, the author can conclude that the dynamics of exports and imports are suggesting that the EU was rapidly increasing the value of the number of goods exported to the UK and importing less from the kingdom.

Apart from that, the author also presents the breakdown of the total trade flow value, whose trend is presented in Figure 7.

Figure 7, trade flow between the EU and UK for the pre-Brexit period



Source: own processing based on Eurostat

Yet, without any regard to the nature of changes (exports and imports), the total trade flow's direction is an upward-pointed curve with an annual increment of 13.6 billion euros, which suggests that the cooperation between the UK and the EU in trade was rapidly increasing. In fact, the direction of this increase might have been unfavorable for one side and favorable to another, but the development of the trade flow value indicates that the trade relationship was flourishing. Then, the author breaks down the value ones again and calculates the chain index and base index for it in Table 3:

Table 3, descriptive analysis of imports and exports for the pre-Brexit period

Year	Trade flow, billion €	Chain Index	Base index
2011	440.8	-	1
2012	457.4	4%	4%
2013	457	0%	4%
2014	472.8	3%	7%
2015	501.1	6%	14%

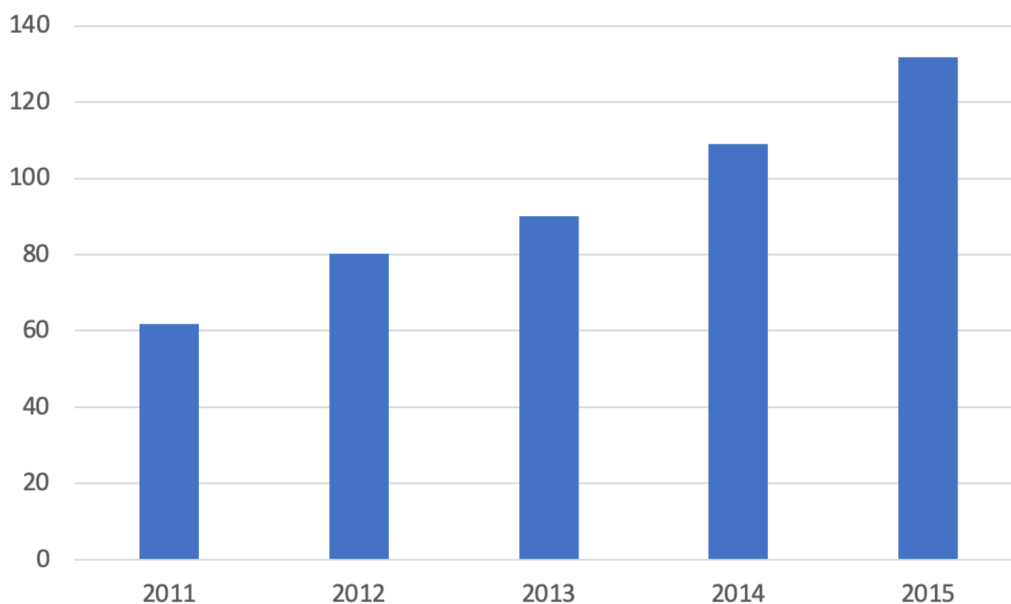
Source: own processing based on Eurostat

Consequently, the author can claim that the increase from the base year (2011) in 2015 reached 14%, which is clearly a lot. Yearly change was also positive with a minor decrease in 2013, which did not stop the trade volume from continuing its increase later on.

All in all, the author highlights the fact that the cooperation between the UK and the EU was rapidly increasing, but the UK was becoming more and more dependent on the EU as the country was importing more from their European partners and was exporting significantly less.

Finally, the author presents a chart that presents the development of the trade balance of the EU in the trade with the UK:

Figure 8, development of trade balance in the EU-UK trade from the European perspective



Source: own processing based on Eurostat

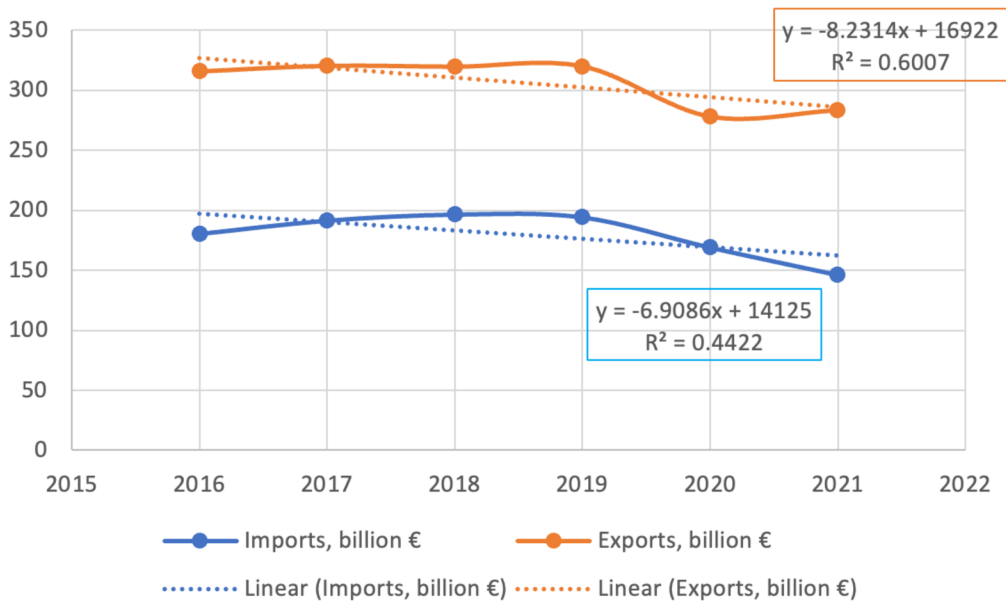
Obviously, after looking at the development of exports and imports (Figure 6) and comparing it with Figure 8 reflecting the development of the trade balance with the UK from the European perspective, it becomes evident that the trade balance of the EU experienced a quick increase over the course of the selected pre-Brexit period.

Nevertheless, the author will continue her analyses in the third chapter of the practical part dedicated to the analysis of the trade flow and related indicators after the Brexit was announced.

4.2 Trade flow post-Brexit

The author uses the same methodology for the analysis of the trade flow after the announcement of Brexit for the purpose of comparing two periods using absolutely the same indicators. Henceforth, the author proceeds to the analysis of exports and imports for the second period, which is indicated in Figure 9.

Figure 9, trends for exports and imports for the post-Brexit



Source: own processing based on Eurostat

Compared to the previous analysis of the pre-Brexit period (Figures 6, 7, 8), it strikes as obvious that the tendency has changed completely and now, both values are diminishing – exports from the EU to the UK decrease by 6.9 billion euros annually, and imports from the UK to the EU also decrease, but the magnitude of the decrease is even higher than before – 8.23 billion euros annually, which is almost 8 times higher than the annual decrease for the pre-Brexit period. Overall, the situation is not favorable for the UK, but there is an obvious change in the whole nature of the cooperation as the total trade flow is expected to be a diminishing one as well. Then, the author presents the descriptive analysis for two variables in Table 4.

Table 4, descriptive analysis of imports and exports for the post-Brexit period

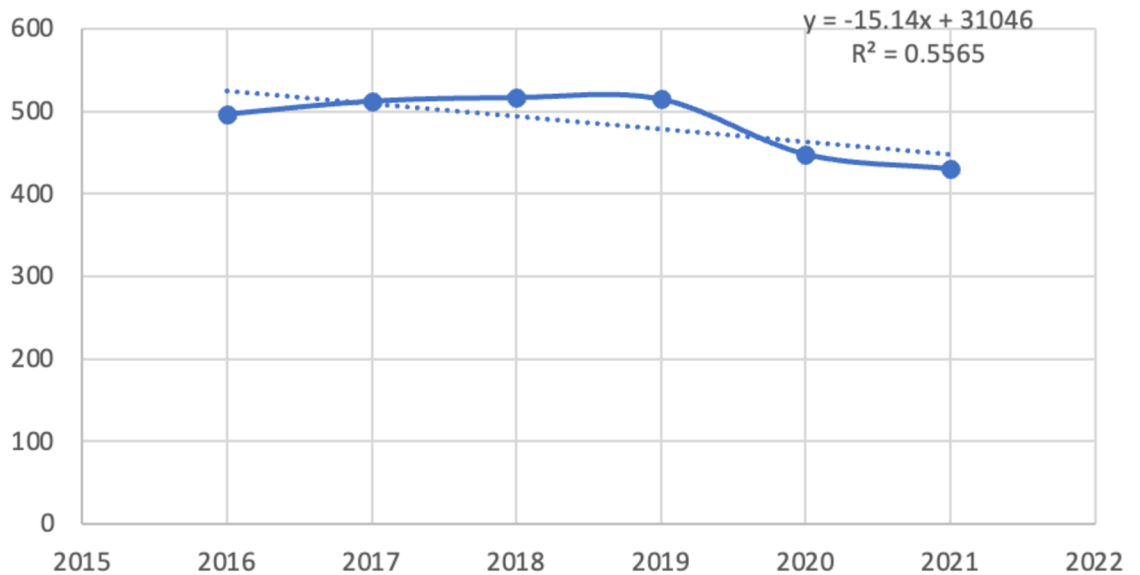
Year	Imports, billion €	Chain Index	Base index	Exports, billion €	Chain Index	Base index
2016	180.4	-	1	315.9	-	1
2017	191.5	6%	6%	320.6	1%	1%
2018	196.6	3%	9%	319.9	0%	1%
2019	194.3	-1%	8%	320.2	0%	1%
2020	169	-13%	-6%	278.3	-13%	-12%
2021	146	-14%	-19%	283.6	2%	-10%

Source: own processing based on Eurostat

Despite the fact that the UK effectively stopped being a member of the EU, the decrease started to happen even earlier – in 2019. Until 2019, the two were still actively engaged in trade cooperation, as both chain index and base index were increasing for both exports and imports. However, the biggest decrease so far happened in 2020, when the volume of both exports and imports increases by approximately 13%. Of course, this might serve as a partial piece of evidence for the fact that the Brexit happened and the two started to trade significantly less, but effectively, it is the year of the first wave of the coronavirus pandemic, which has disrupted supply chains all over the world and led to one of the biggest economic recessions. Yet, when the pandemic loosened its grip over the world, in 2021, the volume of imported goods from the UK to the EU did not recover but it continued to decrease, thus registering the biggest increase compared to the base year of 2016, while the volume of exports from the EU to the UK managed to perform a slight recovery with the increase of 2% compared to 2020, which is still not a lot, when comparing it to the base year and the pre-Brexit period.

Then, the author continues to the third variable – total trade flow between the EU and the UK for the post-Brexit period.

Figure 10, trade flow trend for the post-Brexit period



Source: own processing based on Eurostat

According to the trend estimated for the trade flow value for the post-Brexit period, it can be concluded that there was an annual decrease equal to 15.14 billion euros. When comparing this figure to the figure estimated for the pre-Brexit period, it is evident that the tendency changed sharply and the cooperation between the two, according to the author's estimate, was decreasing. The biggest decrease happened in 2020, which might be a consequence of both – the Brexit finalization and the start of the pandemic of the coronavirus.

Table 5, descriptive analysis of the trade flow for the post-Brexit period

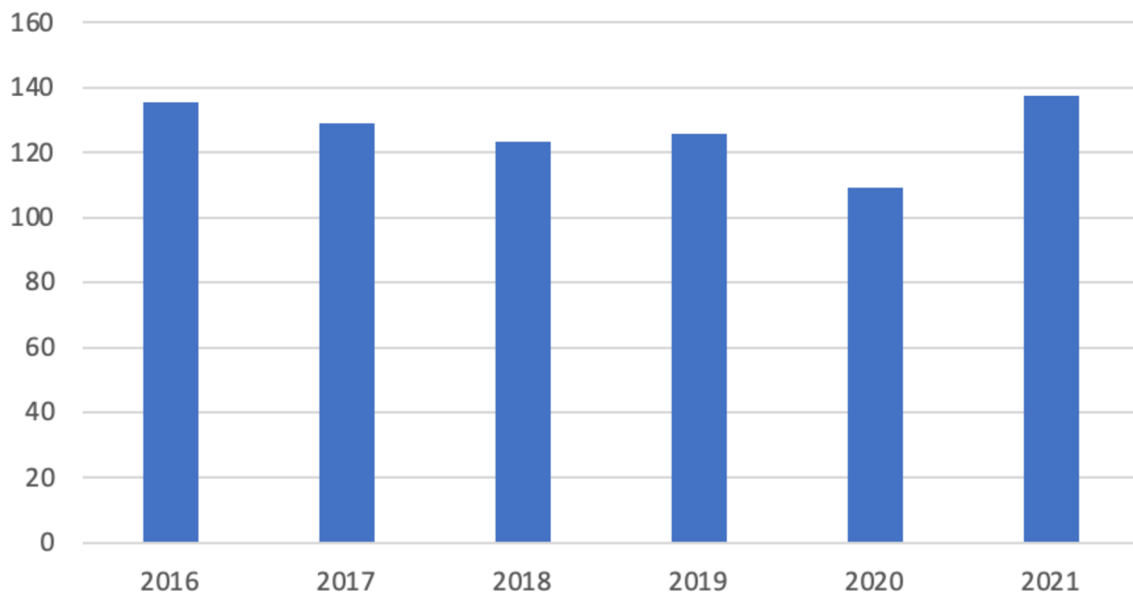
Year	Trade flow, billion €	Chain Index	Base index
2016	496.3	-	1
2017	512.1	3%	3%
2018	516.5	1%	4%
2019	514.5	0%	4%
2020	447.3	-13%	-10%
2021	429.6	-4%	-13%

Source: own processing based on Eurostat

The same is identified in the descriptive analysis of the value (Table 5) – in total, there is a decrease equal to 13% in 2021 compared to the base year of 2016, Henceforth, it is surely possible to say that there was a serious diminishment in the total trade flow value between the EU and the UK. Once again, the biggest decrease in terms of percentual annual change is identified in the year 2020.

Finally, the author proceeds to the visual representation of the trade balance from the EU’s perspective in Figure 11.

Figure 11, development of trade balance in the EU-UK trade from the European perspective



Source: own processing based on Eurostat

Trade balance of the EU in the trade with the UK was decreasing in 2017-2018, which comes from the increase in the UK's exports to the EU. What is more, the pandemic also led to a serious decrease in the trade balance of the EU, but the situation started to return for the block in 2021, when the EU increased their volume of exports to the UK, but the UK was not able to maintain the same level of exports to the EU after the pandemic, so it can be assumed that the Kingdom's economic output was badly hit by the pandemic.

4.3 Share in total trade

After analysing values of indicators related to trade, the author takes an insight into statistics of EU-UK trade again and this time, she focuses on seeing the differences in the share of the trade with the partner before Brexit and after the phenomenon and talks related to it took place. In Table 6, the author presents the dataset used for the analysis implemented in this chapter.

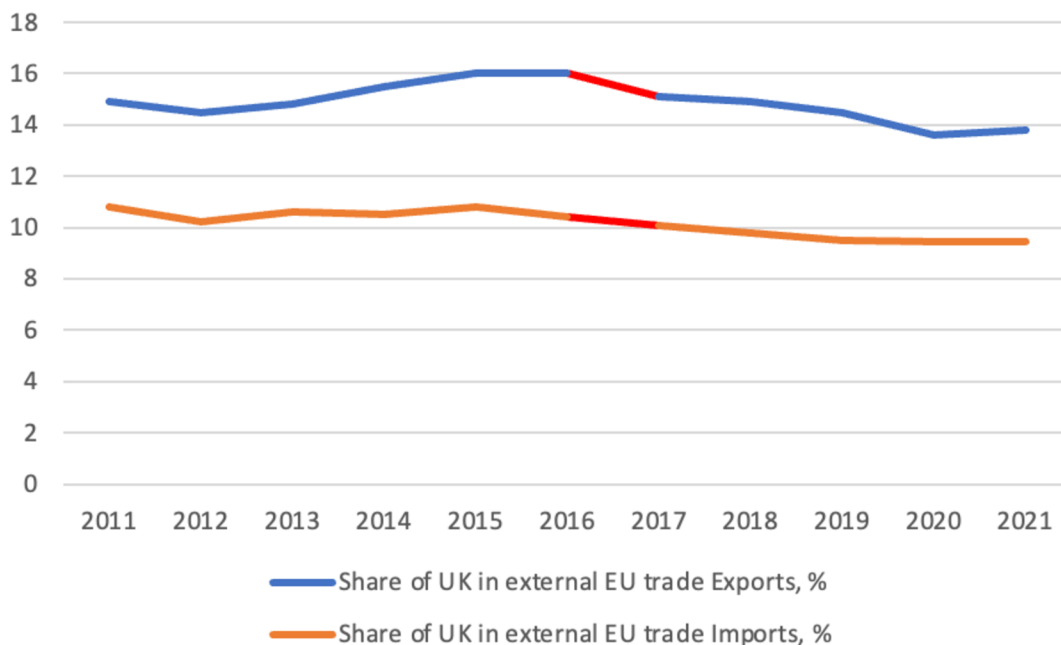
Table 6, database for the analysis of shares

Year	Share of UK in external EU trade		Share of the EU in total UK trade	
	Exports, %	Imports, %	Exports, %	Imports, %
2011	14.9	10.8	46.4	50.2
2012	14.5	10.2	47	50.7
2013	14.8	10.6	45.3	51.3
2014	15.5	10.5	46.3	52.1
2015	16	10.8	46.5	52.9
2016	16	10.4	44.3	53
2017	15.1	10.1	43.9	52.7
2018	14.9	9.81	45.4	53
2019	14.5	9.51	42.3	51.4
2020	13.6	9.43	41.8	50.4
2021	13.8	9.46	42.1	50.6

Source: Eurostat, 2022

Consequently, the author proceeds first to the analysis of the share of UK in external EU trade for exports and imports, which is indicated in Figure 12.

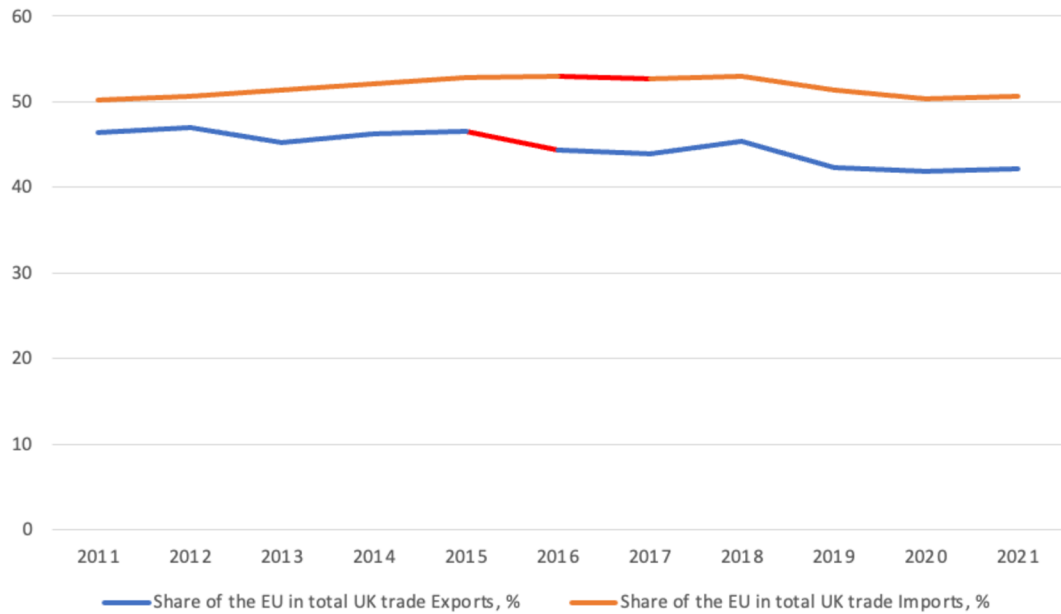
Figure 12, development of the share of the UK in the EU trade



Source: own processing based on Eurostat

The author indicated the period when the original drop in the share took place, which was eventually the period 2016-2017, a year after the Brexit was finally announced and this drop happened for both indicators – share of export and share of imports, while the drop in the share of exports was more serious compared to imports. In fact, the shares were inevitably diminishing until finally reaching the bottom in 2020, under the effect of the coronavirus pandemic. In 2021, there was a slight increase but this increase is primarily explained by the partial recovery of trade after the pandemic of coronavirus. Ultimately, it can be surely said that the role of the UK in the trade with the EU diminished, but this was not a really huge decrement. Then, the author proceeds to the analysis of the shares from the UK's perspective and the graph is available in Figure 13.

Figure 13, development of the share of the EU in UK trade



Source: own processing based on Eurostat

For sure, the dynamic of the change in the share of the EU in the total trade of the UK is slightly different. The share of exports to the EU dropped significantly, which is obviously a consequence of less favorable trading conditions for the United Kingdom. At the same time, dependency on the EU in terms of imports remained and over the course of the selected time period, this share even went higher even despite the Brexit, which suggests that the UK found itself entangled in the situation when they received problems with the movement of their goods to the EU but did not at all stop importing it from the Union. In addition to that, it is wise to say that this analysis underpins that the role that the UK played for the EU trade is not at all significant and the EU can substitute the UK with other trading partners, while the role of the EU for the UK is crucial and surely enough, the Brexit is expected to take a serious toll on the economy of the country.

4.4 Economic effect

After focusing on the trade and related parameters, the author proceeds to the analysis of the development of a very crucial economic growth indicator – GDP growth. The author presents the database used for the analysis in Table 7, which also contains the result for the calculation of averages for the pre-Brexit and the post-Brexit periods.

Table 7, analysis of GDP growth for two periods

Year	GDP growth, %			
	EU	UK		
2011	1.8936009	1.067610914	Pre-Brexit average, %	
2012	-0.6998834	1.448456757		
2013	-0.0838217	1.819863375	EU	UK
2014	1.5975743	3.199702626	1.00290542	1.9857474
2015	2.307057	2.393103184		
2016	1.977126	2.165206211	Post-Brexit average, %	
2017	2.8384813	2.44357047		
2018	2.065953	1.705021022	EU	UK
2019	1.8051071	1.604308648	1.40026795	0.7353597
2020	-5.6775807	-11.03085846		
2021	5.392521	7.524910374		

Source: own processing based on Eurostat

Consequently, it becomes pretty apparent by looking at the pre-Brexit values for the average GDP growth, that the situation of the UK was much more favorable prior to the country's decision to part ways with the EU, where the average GDP growth per year was equal to 1.98 percent for the UK and 1 percent for the EU, making a difference of approximately 0.98 percentage points. This might be explained by the series of ongoing crises in the EU and to be more particular, Eurozone countries which found themselves entangled in the series of financial shocks being a part of the Eurozone debt crisis.

At the same time, the situation after the Brexit announcement became less favorable for the United Kingdom, as their average annual growth became lower than for the EU with 1.4 percent annually on average for the EU and just 0.73 percent for the UK, making a difference of approximately 0.7 percentage points between them. Clearly, the situation deteriorated more for the UK, but it is also fair to say that the country was much more hit by the pandemic than the EU, according to the numbers for the GDP recession in 2020.

4.5 Structural Change

4.5.1 Territorial

For the final chapter of the practical part, the author analyses structural change that took place in the trade of the EU and the UK. To be more specific, the author considers two different types of structural change – territorial and commodity ones in order to identify what kind of changes took place in the trade of two subjects and also in the trade between them. First, the author starts from the territorial structure of trade and for this purpose, the author selects two different years from the selected time interval for the analysis – the year 2015 as an example of the last pre-Brexit year and the year 2020 as an example of the post-Brexit year right after the conclusion of the agreement. The author below presents the comparison of largest trading partners of the UK in 2015 and 2020 in order to find out if the country after Brexit was in fact able to diversity its trade. First, the author focuses on the exports of the UK with the dataset for 2015 and 2020 indicated in Table 8, where the author considers just the biggest trading partners.

Table 8, UK main items of commodity structure of exports to the EU

Country	Share in 2015, %	Share in 2020, %
Germany	10.4	10.8
Netherlands	6.08	6.77
France	6.02	6.04
Ireland	5.73	7.22
Spain	3.2	2.94
Italy	2.91	2.8
Switzerland	5.68	3.58
Belgium	3.91	3.5
China	4.08	4.91
Hong Kong	2.31	2.41
United Arab Emirates	2.26	1.82
Russia	0.9	0.77
Japan	1.52	1.7
United States	14.2	13.9
Canada	1.62	1.89
Australia	1.3	1.34
India	1.39	1.25

Source: OEC, 2022

Clearly, when comparing exports of the country in 2015 and 2019, it becomes evident that the country in fact started to trade more and export more to particular foreign partners outside of the EU, such as Japan and, what is more important, China while the share of exports for particular partners from the EU decreases, such as for Spain, Italy and Belgium. In fact, this dynamic suggest that the UK started to look for new partners but based on the numbers, it is still visible that the country trades the most with the EU and no significant changes happened. Then, the author proceeds to the imports and the comparison between 2015 and 2019 in Table 9.

Table 9, UK main items of commodity structure of imports from the EU

Country	Share in 2015, %	Share in 2020, %
Germany	15.5	12.2
Netherlands	7.03	6.61
France	5.76	4.97
Ireland	2.74	2.88
Spain	3.49	3.1
Italy	4.01	4.1
Switzerland	2.15	2.38
Belgium	3.67	3.3
China	10.2	12
Hong Kong	0.57	2.43
United Arab Emirates	0.35	0.34
Russia	0.79	4.15
Japan	1.68	1.71
United States	8.55	7.89
Canada	2.34	2.17
Australia	0.47	1.65
India	1.5	1.27

Source: OEC, 2020

When it comes to exports, the situation changed in an opposite direction, where the country clearly started to import less from the EU and import more from China, Australia and Russia. Undoubtedly, the territorial structure of imports changed while for the exports, there are seemingly no serious changes or improvements for the trade of the UK.

4.5.2 Commodity

For the second part of the structural change analysis, the author considers the same years – 2015 and 2020 and now, she is focused on the comparison of the most traded commodities between the UK and the selected EU countries, who were the biggest European trading partners of the UK prior to Brexit – Italy, Netherlands, Spain, Germany, France and Belgium.

Table 10, UK commodity structure of exports to the EU

Commodity	Share in 2015, %	Share in 2020, %
Gas Turbines	1.27	2.22
Cars	8.9	5.37
Packaged Medicaments	5.44	5.3
Crude Petroleum	8.2	8.95
Refined Petroleum	3.92	2.77
Gold	0.13	1.7
Aircraft Parts	6.03	4.92
Hard liquor	1.22	1.16
Broadcasting equipment	1.32	1.06
Platinum	0.7	1.57
Medical instruments	0.74	0.99
Computers	0.97	0.78
Motor vehicles parts	2.21	1.79
Office machine parts	1.24	0.91

Source: OEC, 2022

Based on the structure of UK exports to the EU, it is visible that the share of goods with high value added diminished by significant figures, especially for cars, refined petroleum and aircraft parts, which suggests that in fact, the trade between the two shifted in a slightly different direction.

Table 11, UK commodity structure of imports from the EU

Commodity	Share in 2015, %	Share in 2020, %
Delivery trucks	1.87	1.38
Cars	14.7	10.3
Packaged Medicaments	3.66	3.73
Crude Petroleum	0.1	0.1
Refined Petroleum	1.77	1.4
Gold	0.55	1.41
Aircraft Parts	0.64	0.69
Wine	1.15	1.3
Telephones	1.48	0.21
Jewellery	0.66	0.87
Medical instruments	0.91	1.08
Computers	1.86	1.17
Motor vehicles parts	3.27	2.88
Planes	1.28	1.33

Source: OEC, 2020

When it comes to the commodity structure of imports from the EU to the UK, it is pretty evident that shares for some goods diminished by high values, such as motor vehicle parts, telephones, refined petroleum and, what is more important, cars. Based on the comparison, it becomes evident that the shares of goods with high value added also increased in the imports from the EU.

5 Results and Discussion

5.1 Brexit effects

To begin with, it is wise to say that when considering the effects of Brexit on the trade between the European Union and the United Kingdom, it is essential to understand that it is yet too early to jump to valid conclusions about the effect that the Brexit movement presumably had on the cooperation between the two in the long-term perspective, because the effective partition happened just three years ago. Yet, the author summarizes her findings for the post-Brexit period compared to the pre-Brexit in Table 8.

Table 12, summary of findings about the trade tendencies of the UK and the EU

Indicator	UK	EU
Trade balance with each other	Decreased	Increased
Imports from each other	Increased	Decreased
Exports from each other	Decreased	Increased
Economic growth	Decreased	Increased
Geographical structure	Almost no diversification was made	Was able to diversify its trade

Source: own research

Effectively, the author believes that another obstacle to assessing the real effect of the Brexit on the trade cooperation between the two is the pandemic of the coronavirus, which broke out in March 2020 and almost all supply chains all over the world were disrupted with economic output of entire nations and trading blocs being hit in a devastating way. Unfortunately for the author and other researchers interested in the same topic, this significantly interferes with any kind of descriptive or statistical analysis as this effect of the pandemic cannot anyhow be isolated and excluded from the analysis, so it inevitably causes bias, which is also underlined by Vandenbussche, 2022, who believes that the shocks that were happening in the world shortly after the effective partition of the UK from the EU prevent academists from describing the effect of the Brexit in an unambiguous way.

Apart from that, the author believes that a way bigger short-term or temporary negative effect was caused not by the partition of the UK from the EU, but by the pandemic of the coronavirus, which led to a period of long recovery for economies all over the world, including the British one and the European ones, which is visible in the author's analysis of exports and imports during the post-pandemic period, when the EU was able to recover their exports to the UK quite quickly and return to the pre-covid figures in 2021, while the UK did not succeed in this task, which led to even higher trade deficit for the UK in the trade with the EU. After all, as some economic theories and concepts suggest, trade is sometimes stimulated not solely based on the principle of comparative advantage, but also based on the size of two economies and the distance between them. Of course, neither Brexit nor pandemic did not change the distance between the EU and the UK, but the pandemic hit their economies and according to Du, 2022, the UK has had one of the biggest declines in the region due to the pandemic, which led to even further trade deficit. All in all, the author believes that before continuing to the analysis of the Brexit's effect on the trade between the two, it is first essential to at least try to separate the effect of this phenomenon from the effect of the pandemic, which seems to be rather impossible under the current circumstances.

Yet, the author wants to bring to readers' attention the figures for 2016-2019, right after Brexit. Clearly, it cannot be anyhow supposed that there was a drastic decrease in the trade volume and quite on the contrary, the two continued their economic cooperation in the domain of trade regardless the announcement of Brexit. Of course, this might serve as a piece of evidence for the fact that there were seemingly no significant changes during the process of trade deal negotiation, which is also concluded by Ghauri, 2022. Yet, according to him and other authors cited over the course of this work, as well as to the author of the thesis, it is believed that the main factor influencing the decrease in the trade volume between the UK and the EU is the ongoing severe economic recession in the UK, which is likely to be caused by two phenomena at the same time – the pandemic and Brexit. Can it be suggested that the economic recession might have been less severe if the UK remained a member of the Union? Effectively, it can be the case as the EU meticulously supports the recovery of its members, and the UK would have surely not been an exception, according to Luo (Luo, 2022).

Also, such a severe economic recession, as well as political crisis in the UK could have been avoided if no Brexit has happened due to the fact that the partition from the EU caused the country to lose a lot of foreign direct investors and lead to the situation, when companies who had been operating in the country for decades decided to move elsewhere out of fear for their stability, which is mentioned by Burton, 2022. All in all, the author believes that Brexit all alone cannot be blamed for causing a decrease in the trade cooperation between the two, but Brexit can surely be blamed for the economic recession of the United Kingdom, which is also noticed by British people themselves, whose public opinion towards the EU, according to the public poll, has changed significantly – from being happy about the Brexit to the consideration of rejoining the EU with the support for Brexit being at its all-time low (Brown, 2022).

5.2 Future development

Of course, it is essential to understand that any recession will at the end be overcome and an economic growth will be achieved. The author sticks to the concept of trade based on the sizes of economy and distance between them, as well as cultural similarities. When considering the UK and the EU, it is downright evident that the history between the two was almost never easy, meaning that there were constant periods of turmoil followed by years of prosperous cooperation. However, when considering those years of turmoil, they were traditionally darkened by the presence of a gloom strong figure ruling in Europe, such as Napoleon the first in the 19th century and Hitler in the 20th century, who both tried to put a blockade on the trade with the UK when pursuing their domestic expansionist strategies without any regard to economic cooperation (Broers, 2022). Yet, in the 21st century and especially in the second decade of the century, it is fair to say that ideas of trade liberalization with the help of the active participation of the WTO and other organizations, do prevail meaning that it is more likely that the European politicians, despite being visibly discouraged and disappointed by the recent conduct of the UK, will still not be willing to stop the cooperation with the UK because it still offers the EU a series of numerous benefits, such as importing goods that cannot be produced in the EU. Henceforth, the author believes that the trade might decline even further, but as the UK's economy will recover from the ongoing crisis, the two will continue to engage in trade relations with annual positive change in the total volume under the circumstances of a favorable business cycle.

Apart from that, the author also believes that the UK, despite leaving the EU, still remains a strategic ally of the Union, as well as the USA because they all share the same values in terms of security, democracy, et cetera. Clearly, siding with the EU will help the UK not to distance themselves too far from their neighbors. What is even more, active support of Ukraine from both the UK and the EU can help them to find a reconciliation and reinstate a series of partnerships that were stalled right after the partition from the EU.

6 Conclusion

The author, based on the series of her findings, concludes that Brexit itself directly is likely to have caused a decrease in the trade volume in 2019-2021, but it is vital to understand that the trade relationship between the UK and the EU was obscured by a far more negative phenomenon, such as the pandemic of the coronavirus. Yet, the author concludes that Brexit itself can be blamed for the economic recession that happened in the UK and causes a decrease in the trade of the UK not just between them and the EU, but also with other countries as the output of the Kingdom was either not increasing that fast or was simply diminishing at some points.

However, the author believes that once the UK will be able to recover from the ongoing recession and other negative phenomena happening in the country, the cooperation with the EU will continue as both parties share the same culture, views and values for a lot of fundamental concepts, such as democracy. What is more, the author believes that siding with Ukraine in the ongoing armed conflict can help the European and the British politicians to recall that two parties, despite having differences, are very much related to each other.

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