

BREXIT: IS POLITICAL SOVEREIGNTY WORTH THE ECONOMIC LOSSES?**Oltieva Mohira Gayrat kizi****University of World Economy and Diplomacy****3rd year student at the faculty of International Economics and Management****moxiraoltieva@gmail.com****<https://doi.org/10.5281/zenodo.18627311>**

Abstract: This article examines the economic consequences of the UK's decision to leave the European Union in 2016, after over 4 decades of integration. Although the UK remains highly ranked in terms of HDI and GDP indices, Brexit has caused significant economic and political challenges. This article makes firm-level microanalysis, comparisons of the UK with similar developed countries before and after Brexit using reliable macroeconomic data provided by NBER. While the UK gained a political sovereignty and control, the article argues that Brexit's economic costs outweigh these benefits. Additionally, this study highlights how British citizens' opinions about Brexit changed over the years and how this decision will shape the UK's economic trajectory in the upcoming years.

Key words: Brexit, European Union, United Kingdom, economic impact, political sovereignty.

Аннотация: В данной статье рассматриваются экономические последствия решения Великобритании выйти из Европейского союза в 2016 году после более чем четырёх десятилетий интеграции. Несмотря на то, что Великобритания по-прежнему занимает высокие позиции в рейтингах индекса человеческого развития (ИЧР) и по показателям ВВП, Брексит привёл к значительным экономическим и политическим трудностям. В статье проводится микроанализ на уровне отдельных фирм, а также сравнение Великобритании с аналогичными развитыми странами до и после Брексита с использованием надёжных макроэкономических данных, предоставленных Национальным бюро экономических исследований. Хотя Великобритания получила политический суверенитет и контроль, в статье утверждается, что экономические издержки Брексита перевешивают эти преимущества. Кроме того, исследование показывает, как менялись мнения британских граждан о Брексите на протяжении лет и как это решение повлияет на экономическую траекторию Великобритании в ближайшие годы.

Ключевые слова: Брексит, Европейский союз, Великобритании, экономические последствия, политический суверенитет.

Annotatsiya: Ushbu maqolada Buyuk Britaniyaning 2016 yilda Yevropa Ittifoqidan chiqish to'g'risidagi qarorining iqtisodiy oqibatlarini, qariyb to'rt o'n yillik integratsiyadan so'ng, tahlil qilinadi. Buyuk Britaniya hanuzgacha Inson taraqqiyoti indeksi (ITI) va YAIM ko'rsatkichlari bo'yicha yuqori o'rinlarni egallab kelayotgan bo'lsa-da, Brexit sezilarli iqtisodiy va siyosiy muammolarni keltirib chiqardi. Maqolada alohida korxonalar darajasida mikroiqtisodiy tahlil o'tkazilib, Buyuk Britaniya Brexitdan oldin va keyin o'xshash rivojlangan davlatlar bilan taqqoslanadi hamda Milliy Iqtisodiy Tadqiqotlar Byurosi (NBER) tomonidan taqdim etilgan ishonchli makroiqtisodiy ma'lumotlardan foydalaniladi. Buyuk Britaniya siyosiy suverenitet va nazoratni qo'lga kiritgan bo'lsa-da, maqolada Brexitning iqtisodiy xarajatlari ushbu afzalliklardan ustun ekani ta'kidlanadi. Shuningdek, tadqiqotda britaniyalik fuqarolarning Brexit haqidagi qarashlari yillar davomida qanday o'zgargani va ushbu qaror

Buyuk Britaniyaning yaqin yillardagi iqtisodiy rivojlanish yo'nalishiga qanday ta'sir ko'rsatishi yoritib beriladi.

Kalit so'zlar: Brexit, Yevropa Ittifoqi, Buyuk Britaniya, iqtisodiy oqibatlar, siyosiy suverenitet.

The United Kingdom's Economy During European Union Membership (1973-2016)

The UK has been known for its strong economy for several years, especially maintaining a high ranking among developed countries. Currently, it is the 22nd largest economy in the world with a population of 69.6 million, and according to UNDP, it ranks 13th on the Human Development Index, with HDI=0.946. In terms of GDP, the UK stands 6th in global ranking with GDP IMF = \$3.84 trillion, GDP UN = \$3.38 trillion and GDP per capita = \$55,199 (World Population Review, 2025).

Despite its strong economic position, in 2016, the UK made an unexpected decision to leave the EU, and end its four-decade integration with EU countries. Brexit was a significant shift in the UK's economy. Although Brexit brought many benefits, it caused a lot of disadvantages for the UK as well. But the central dilemma that stands here is: "Is the aim to reach political independence worth the loss of great economic opportunities that the EU provided?" This paper argues that the economic costs of leaving the EU were greater compared to the political benefits for the UK.

Brexit: How It Happened and Why?

In 1945, after World War II, the UK was not destroyed as much as France or Germany, and its GDP per capita was around 90% higher than the average of the other EU countries. However, by 1973, as the EU6 countries like France, Germany, Italy, Belgium, the Netherlands, and Luxembourg experienced significant economic growth, the UK's GDP per capita was 7% smaller than the average of the EU6 (Coricelli and Campos, 2015). For the UK, joining the EU seemed like the best option to strengthen its economy because it offered opportunities for better trade, investment, and protection of its economic position.

EU membership had a significant positive impact on the British economy. The EU offered free access to the integrated European market, boosted trade, increased both exports and imports, and helped to stabilize GDP (which was declining before entry). Additionally, higher foreign direct investment (FDI) contributed to the growth of the UK's financial sector.

Despite all these positive economic changes, why did the UK decide to leave the EU? Could it maintain the same level of stable development after exit, or not? And how did its leave impact the British economy?

The UK was the first country to leave the EU. Brexit comes from the combination of 2 words, "British" and "Exit." Although joining the EU provided several economic advantages, on June 23, 2016, in the referendum held in the UK, 51.9% of British voters chose to leave. The first reason is that the financial crisis in 2008 showed how dependence on one currency, namely, the euro, might negatively impact both the British economy and the whole free trade market among EU countries. Secondly, many people from the Middle East, who suffered from wars and conflicts, were moving to the UK to find a job and safe places for their families (University of Essex, 2025). Many native British people thought that immigrants would take away jobs and that it would lead to a decline in wage levels and an increase in house prices. People blamed the EU's border policies, and it created an instinct among many British people, especially among

old people in England and Wales, to leave the EU and become an independent country that can create its own policies. In July 2016, Theresa May became the Prime Minister, and the process of withdrawal from the EU started formally. In 2019, Boris Johnson became the Prime Minister, and after many deals and disagreements, on January 31, 2020, the UK officially left the EU (Walker, 2021).

Brexit's Impact on the UK Economy

Many economic studies, including a National Bureau of Economic Research, found that Brexit significantly reduced the economic growth of the UK, affecting trade, investment, employment, and other sectors. According to NBER, by 2025, the Brexit process had reduced UK GDP by 6% to 8%, investment by 12% to 18%, employment by 3% to 4%, and productivity by 3% to 4%.

Comparing a change in the indexes like GDP or GNI is not enough to understand the real impact of Brexit. For this reason, microanalysis that used the Decision Maker Panel (DMP) survey, company accounts data, and patent data of the thousands of individual UK companies proved that Brexit had a negative impact on the UK's economy. A comparison of the performance of high- and low-EU-exposure firms (firms that are strongly dependent on the EU and less dependent) before and after 2016 showed that business investment decreased rapidly because of the increased uncertainty in trade rules and supply chains. It was identified by using the difference-in-differences (DiD) method, which is calculated by using data about the (i) percentage of sales that were exports to the EU; (ii) percentage of costs that were imports from the EU; (iii) percentage of the workforce who were migrants from the EU; (iv) percentage of sales covered by EU regulations; (v) percentage of directors who were EU nationals; (vi) whether the firm was EU owned (Bloom, Bunn, Mizen, Smietanka, and Thwaites, 2025). Most importantly, COVID effects were also taken into account and controlled. The UK's investment growth index was 12% lower by 2023-2024 than it was predicted to be if Brexit did not happen.

In terms of employment, before Brexit, high-exposure companies hired workers very fast, but in the post-Brexit period, companies hired approximately 3.5% fewer employees than they would have without Brexit. In short, it is obvious that companies lowered salaries and did not want to hire that many workers, which resulted in fewer job opportunities for unemployed people or immigrants.

Productivity was also a main area affected by Brexit. Studies show that Total Factor Productivity (TFP) reduced almost 3-4%, mostly because of low investments. TFP measures how companies manage to turn their input efficiently into outputs. After Brexit, increased uncertainty in trade rules led to less spending on R&D, upgrades, and technology. Especially for EU-dependent firms, Brexit meant new regulations, delays, and trade barriers. Most companies, worried about disruptions of their supply chains, bought more raw materials and products and kept extra inventory than usual by spending more money and reducing their productivity levels.

The authors of the NBER paper summarize their microanalysis by mentioning these 4 main channels that were affected negatively because of Brexit. First, the UK's decision to leave the EU generated a persistent increase in uncertainty, weighing on investment, in particular. Second, investment and employment growth were affected by lower expected demand for goods and services. Third, productivity growth within firms was affected by lower innovation and IT investment and by management time and resources being used to prepare for Brexit.

Finally, productivity growth between firms was reduced as the more productive, internationally exposed firms were more negatively impacted.

At the macroeconomic level, the effect of Brexit is clearer in the comparison of the UK's performance with other similarly developed countries. These countries are the USA, Canada, Japan, and EU member countries. "Counterfactual Approach" supported the idea that Brexit has never happened and analyzed trend before and after 2016 in the UK's economic performance. In this approach researchers used 5 different methods: (1) GDP weighted; (2) GDP/air distance (gravity) weighted; (3) UK trade weights; (4) a formal synthetic control; and (5) simple unweighted) to identify Brexit's impact, and all 5 gave similar results, which means the results are reliable and very accurate. It showed that the British economy was not hit overnight; the drop happened slowly. For example, by 2025, GDP per capita decreased by 6-10% than it would have been without Brexit. Investment rates were 12-26% lower compared to the other similar developed countries, with gradual gaps, not sudden. This means, although only 5 years have passed after Brexit, it is still affecting the UK economy gradually, and this trend will probably continue in the future by creating unpredictable economic challenges. On top of that, the UK could develop even faster with the EU than its current growth (Bloom, Bunn, Mizen, Smietanka, and Thwaites, 2025).

Brexit and the UK's International Relations

Now the UK is no longer dependent on the EU. The biggest advantage of Brexit is political sovereignty. The first advantage of Brexit at the international level is the transformation from free movement to strict control of borders. Currently, the UK attracts more skilled, qualified employees with an English-language requirement (Cabinet Office, 2022).

When the UK was part of the EU, all foreign policy issues, such as sanctions or security challenges, had to be discussed and agreed by all EU countries at first. The process was slow and took a long time because of the requirement of consensus. However, now, the UK chooses its international partners, cooperators, and decides how to work with them. The foreign policy is in the UK's own hands and acts faster than it used to. Now there is no need to wait for permissions in this globalized world where every second matters.

In terms of security, as written in the government report, the UK increased its defense spending to record levels. The country is still the key member of NATO. Australia, the UK, and the USA signed a security agreement called AUKUS, which focused on technology defense (advanced military technologies like underwater detection technology, cybersecurity systems, and AI for defense) and security in the Indo-Pacific region. Also, the UK created its own new independent sanctions policy by establishing two new autonomous regimes, like Global Human Rights and Global Anti-Corruption. For many countries, Brexit seemed like a failure that would make the UK isolated, instead, the country hosted COP26, a major global summit, led the group of strong economies G7, and signed many international agreements, like the New Atlantic Charter (Cabinet Office, 2022). The UK still has its own place and voice in the world and participates actively in international cooperation actions.

Also, the UK is aiming to build the most effective border. It wants a border that creates a secure place to move goods quickly for businesses, protects the supply chain from unpredictable disruptions, and stops the movement of illegal and prohibited goods with the help of digital technology and data. The UK is planning to spend over 1 billion pounds in 3 years to build this modern, safe, and effective border (Cabinet Office, 2022).

Also, the UK is creating a Single Trade Window, which costs 180 million pounds, to avoid all paperwork. Instead of filling out many different forms (especially paper documents) and sending information to many government departments, businesses will use one single system, where they enter information only once and all agencies will use the same data, which is very cost and time-efficient (Cabinet Office, 2022).

Actually, there are many improvements that the UK wants to achieve, like Net Zero by 2050, green finance, emission trading systems, waste management, reforms in farming, marine management, and so on. But one obvious factor is that for the UK it takes a lot of expenses and time to achieve it all after Brexit (Cabinet Office, 2022).

But what about the citizens? Are they happy or satisfied with the outcome? Because a country is all about people. People's role in the development of the economy also matters a lot. After the referendum, people were divided into 2 groups, Remainers and Leavers. Now most people, especially Leavers, have changed their opinion and consider Brexit a wrong decision. Only 30% of people who participated in the questionnaire answered that leaving the EU was a right decision (Statista, 2025). It suggests that even for many citizens, political independence and sovereignty did not give that much benefit or satisfaction as they expected. Overall, despite all these political benefits, economic losses that the UK experienced after Brexit hit its economy more by affecting investment, employment, and supply chains, and slowed its economic growth.

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