

Evaluate the Post-Brexit Trade Performance under the Comparison Analysis between Britain and France in the Context of COVID-19

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Abstract. With the result of the UK referendum indicating that the UK agrees to leave the EU, the trade situation has changed a lot, especially in the duration of Covid-19. This paper employs the export and import data of France and Britain between 2019 to 2021. The results show that both France and Britain suffer a deep decline in trade value in 2020 due to the disadvantages brought by the outbreak of Covid-19. Also, the trade value recovers in 2021. his paper concluded that Britain lose more than France to its' loss of EU membership, including the attractiveness reduction of foreign direct investment (FDI), raising the cost of trade transportation and fewer voices in the European Court of Justice.

Keywords: International trade, Brexit, Covid-19.

1. Introduction

1.1 Background

With the result of the UK referendum indicating that the UK agrees to leave the EU, the UK government informed the EU of its intention to withdraw by invoking Article 50 of the Lisbon Treaty on March 29, 2017. The EU Parliament formally approved the agreement for the UK to leave the EU on January 30, 2020, and on January 31, the UK officially withdrew from the EU. With a series of negotiations between the EU and UK and many new trade deals have been signed, Britain's trade pattern has started to change. Along with the outbreak of the Covid-19 epidemic, it has created difficulties for the UK and European negotiations, as well as a crisis for the global economy

1.2 Related research

As the UK leaves the EU, a series of empirical studies have analysed the post-Brexit trade situation. Dhingra et al predict welfare loss is 1.3% in the 'soft Brexit' scenario and 9.4% in the 'hard Brexit' scenario (i.e., in this case, "soft Brexit" means Britain stays in the EU single market like Norway, "hard Brexit" means UK trades with the EU under World Trade Organisation rules [1, 2]. According to the research by Ebell et al., the fall of 2.7% in real incomes in long term[3]. Also, with the scenario of the UK exit from the Transatlantic Trade and Investment Partnership (TTIP) deal, according to the study from Felbermayr et al, the EU is expected to gain 3.9%, while the third countries outside TTIP are expected to lose 0.9% because of trade diversion from Brexit[4]. The analysis from Jackson and Shepotylo showed the loss of UK will exacerbate under the scenario of TTIP coming into force, which indicates the importance of being a member of a large international trade bloc[5]. On a global scale, Brexit has a huge negative impact on trade between the UK, the EU and major countries, and only a trade deal with the EU can compensate for the loss of trade from Brexit[6].

However, not all evidence from the previous study shows the negative trade effects of Brexit in UK. The research from Stack and Bliss strongly suggests that, although the UK's trade with all three groups of countries (EU, FTAs and regional EPAs) will fall significantly, while trade with the rest of the world will rise considerably, the percentage change in bilateral EU trade is expected to be minimal[7].

Although, an increasing number of studies have analysed the trade performance in the post-Brexit scenario. There is no adequate evidence to get the trade performance consequence from the comparison between Britain and an EU member states.

1.3 Objective

This article assesses whether Brexit was a wise decision in terms of international trade by comparing the international transactions of France and the UK under the epidemic with the new international trade agreements that have been formed in recent years since the UK left the EU. This paper will highlight the trade losses associated with the UK leaving the EU relative to an EU member state-France.

This paper employs the export and import data of France and Britain between 2019 to 2021. The results show that both France and Britain suffer a deep decline in trade value in 2020 due to the disadvantages brought by the outbreak of Covid-19. Also, the trade value recovers in 2021. Meanwhile, the exports were affected more than imports in these three years. This paper concluded that Britain lose more than France to its' loss of EU membership, including the attractiveness reduction of foreign direct investment (FDI), raising the cost of trade transportation and fewer voices in the European Court of Justice. Finally, the paper offers recommendations on trade policy for the UK and France. For Britain, the interventionist supply-side strategy could benefit its' trade economy, including the repair and maintenance of infrastructure. For France, the export incentive strategy will help France's GDP growth.

The structure of this essay is on the following: firstly, this paper review the development of Euroscepticism in Britain and the importance of EU-UK trade links; secondly, this paper employs the international trade data in UK and France between 2019 to 2021, and analyse the trade situation during the epidemic period; thirdly, The results show that a lack of productivity is the main reason for the decline in the UK's trade, the withdrawal of EU also caused the reduction of national productivity, hence the output of export; fourthly, the recommendations for Britain and France trade policy were proposed; lastly, this paper concludes that Brexit damage UK's trade situation, especially in the duration of the epidemic.

2. Euroscepticism and trade

There has been a long history since the formation of Euroscepticism. The problematic relationship between the UK and the EU has existed for centuries long due to the wars and power balance among the Europe continent since the 1700s[8]. In 1972, the Prime Minister Edward Heath agreed to join European Communities and signed the treaty, while public opinion in UK was firmly opposed to attending European Community[8]. In 1993, the Maastricht Treaty (the foundation treaty of the European Union) started to begin the process of shifting power from member states to a central authority in Brussels, and former Eastern European Communist countries began to join EU, which exacerbated the widespread of Euroscepticism in Britain.

According to the study from Nicolaides and Roy, the Brexiters' main claims towards international trade are over-optimistic[9]. On the one hand, they believe that a post-Brexit Britain will be able to pursue a new trade policy without being held hostage to the protectionism of other member states. On the other hand, they insist the UK can benefit a lot from the establishment of bilateral trade agreements. Boris Johnson, who invented the term "Britzerland", believes that the UK could be the free-trade-only partner of the EU, just like Switzerland[10] (i.e., evidence from Dhingra et al shows attending European Free Trade Association would not compensate the loss of Brexit[1]). He argued that the UK has the ability to conclude trade agreements on its own, rather than as part of a regional group, so not only through a series of bilateral UK-EU agreements, but also with non-EU countries. These claims indicate a strong willingness that UK's trade situation will perform better after withdrawing from EU.

2.1 The importance of UK-EU trade links

Trade links between the UK and EU countries date back to medieval times. EU and UK trade has close links.

First, EU is the biggest trade partner of Britain. In 2018, nearly half of the UK's exports flowed to EU member states, totalling around \$372.5 billion. Overall, the EU leads the UK's global trade partnership, accounting for a far greater share than the next largest single country with which the UK trades[11]. Secondly, UK can have access to commence with the third countries through the EU trade agreements. Transatlantic Trade and Investment Partnership (TTIP) is a free trade agreement which is currently being negotiated between the EU and the USA. The UK's exit from the EU is expected to remove it from any TTIP agreement. Thirdly, the geographical proximity of the UK and EU countries is what makes the trade links between the EU and the UK even more inseparable. Europe's major ports provide convenient and efficient transportation for British goods, British goods are shipped to the rest of the world or the Europe continent via the major European ports.

3. International Trade situation under Covid-19

Covid-19, a pandemic that appeared in 2019, disrupted the original plan for international trade globally in which the service of express delivery was affected dramatically due to the ease of virus transmission, while the year 2020 was recognized as the largest decline of output marked as a Global Financial Crisis since the World War II. Specific sectors were influenced negatively, the trade-in travel and tourism slumping significantly, whereas, the trade-in information technologies on the Internet boomed a lot, which represents countries who concentrated on communicative technologies might take advantage of it.

3.1 Data description

According to OECD website, the value of exports of services in OECD countries declined in 2020 by -16.7%, twice as much as the value of goods exports, which dropped by -8.2%.

Exports of services and merchandise relative to same month in 2019. G7 economies

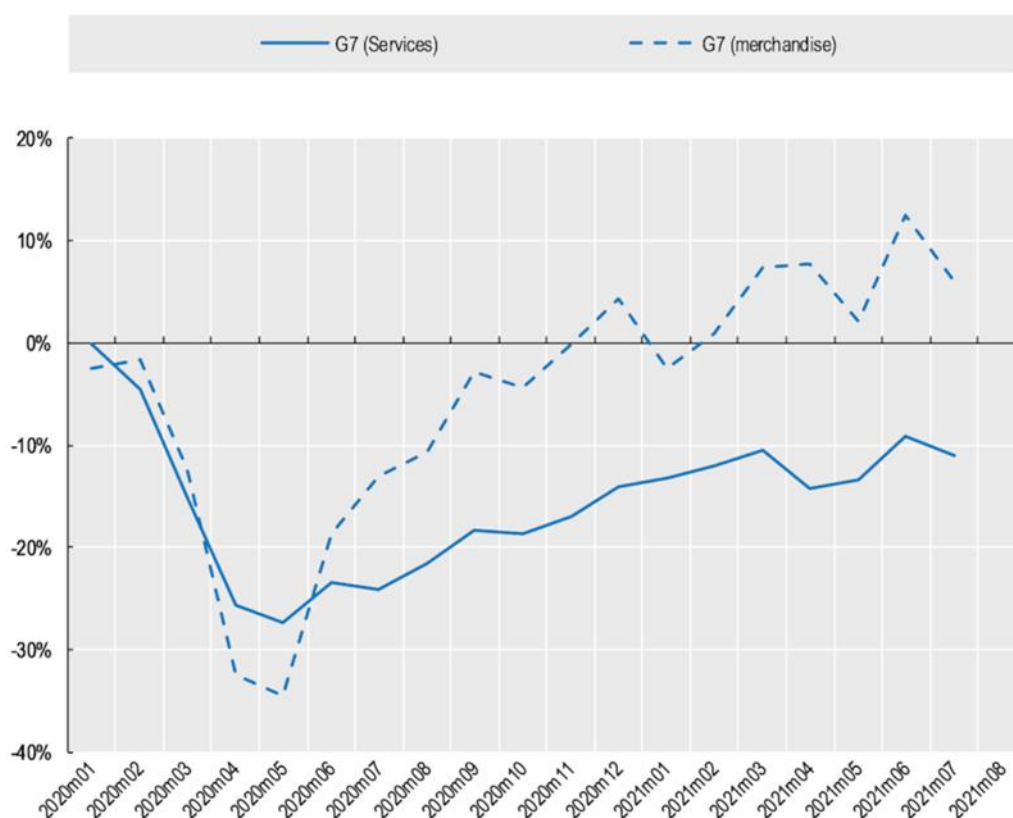


Figure 1. services trade was hit harder and has been slower to recover than goods trade [12]

The value of both exports decreased into the bottom in 2020, but had a positive recovering trend until 2021. Trade in services was recovering but slowly, remaining negative growth. Thus, government and businesses should pay attention to merchandise especially chemical products and pharmaceutical products, transported via air since the cost of marine transportation increased due to this pandemic.

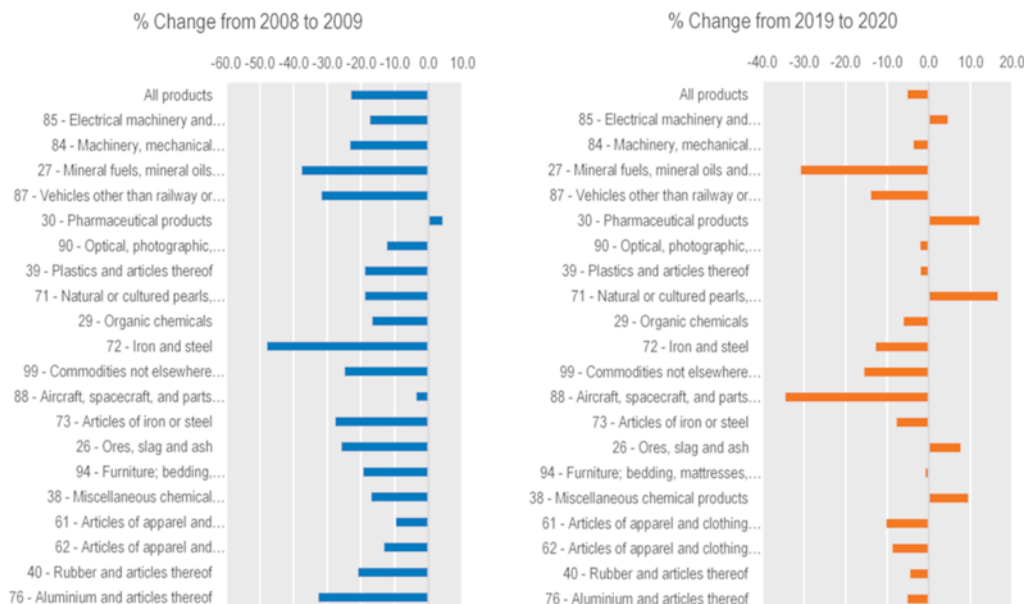


Figure 2. Changes in trade of 20 most traded products [12]

Gap relative to trade in the same months in 2019

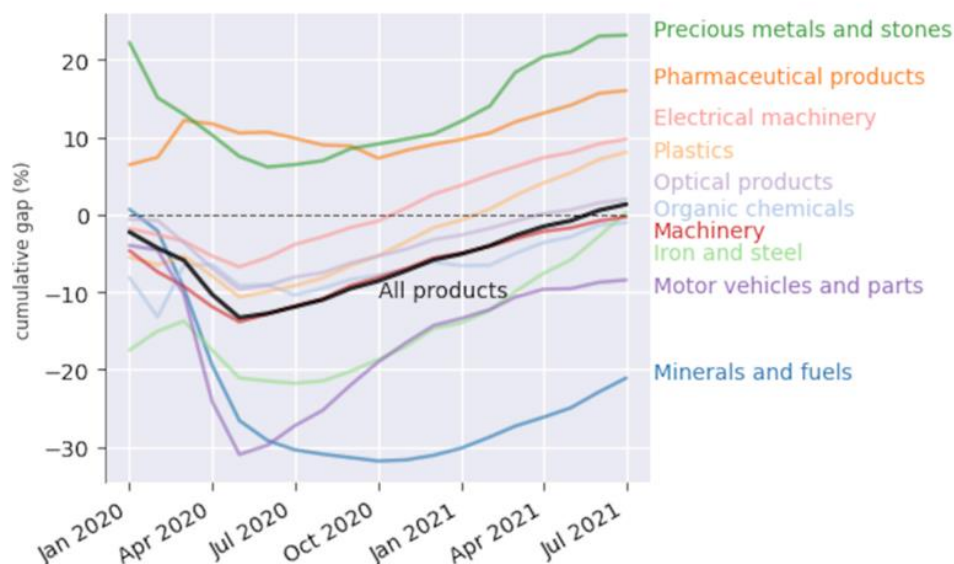


Figure 3. Gap in cumulative trade value during 2020-2021 for top 10 products traded in 2019 [12]

Majority of goods were marked as negative changes of values in international trade from 2019 to 2020, and however, pharmaceutical products, natural good and chemical products achieved increased value of growth. One reason contributed to this result is relating to the cost of marine transportation, which increased during Covid-19 period. Cost of delivery was a necessary component that ought to be taken into account for companies in order to reduce the cost under the circumstance of pandemic. Three products mentioned previously were all transported through the air, reducing the cost of delivery. Not surprisingly, the trade value of iron, minerals and fuel that were transported through the ships was decreasing.

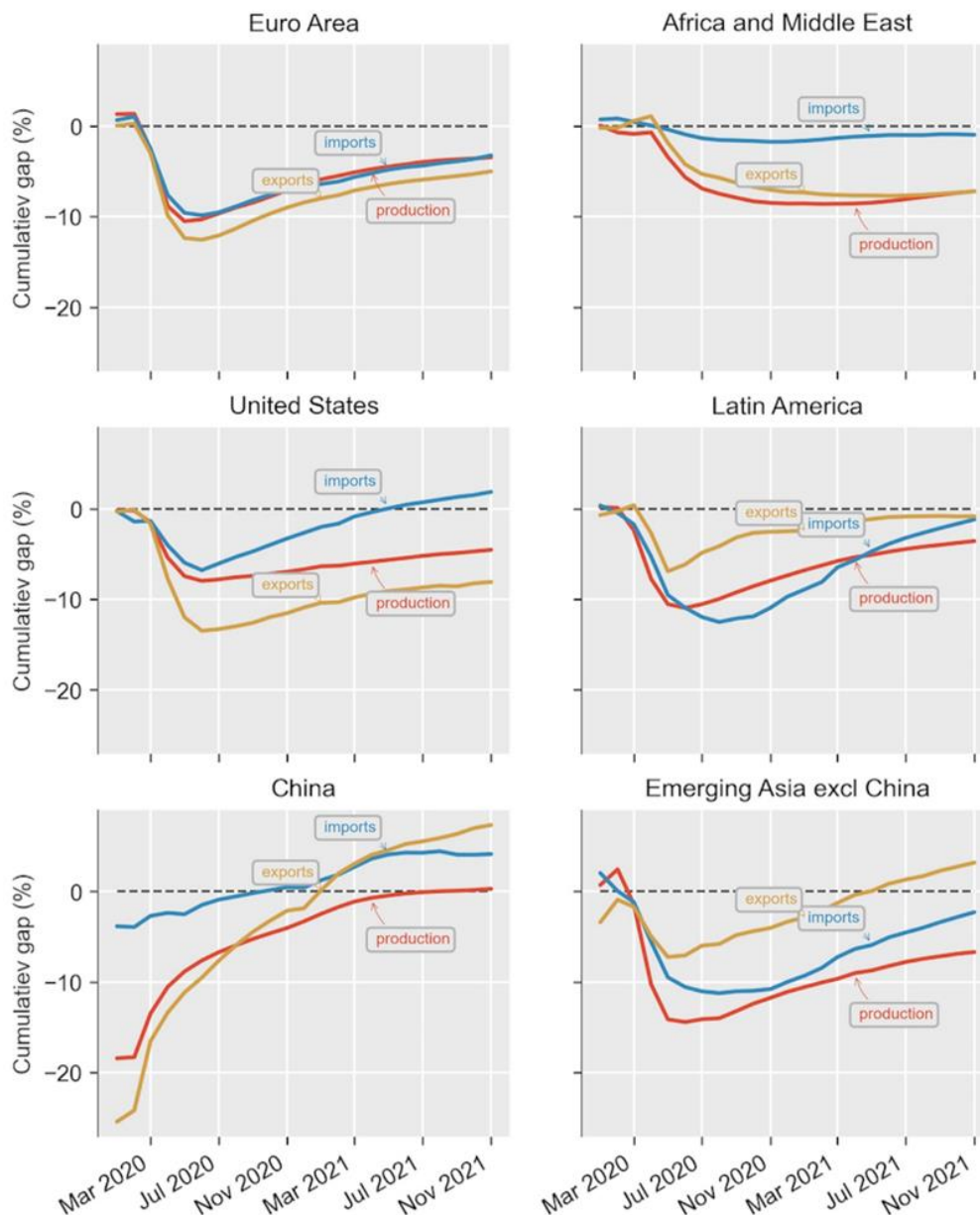


Figure 4. Trade and production gaps, major traders [12]

From macro views, the impact of Covid-19 to value of imports and exports were negative. For instance, Euro area, Africa and Middle East and the USA, the value of import exceeded the value of export, which might lead to crucial issues such as current account deficit. Nevertheless, some countries benefited from it. China expanded its export share from 12% to 15% in January 2021, despite the fact that it came down into 13% in November 2021. For Latin America, the export value remained higher than imports' mainly driven by raw materials.

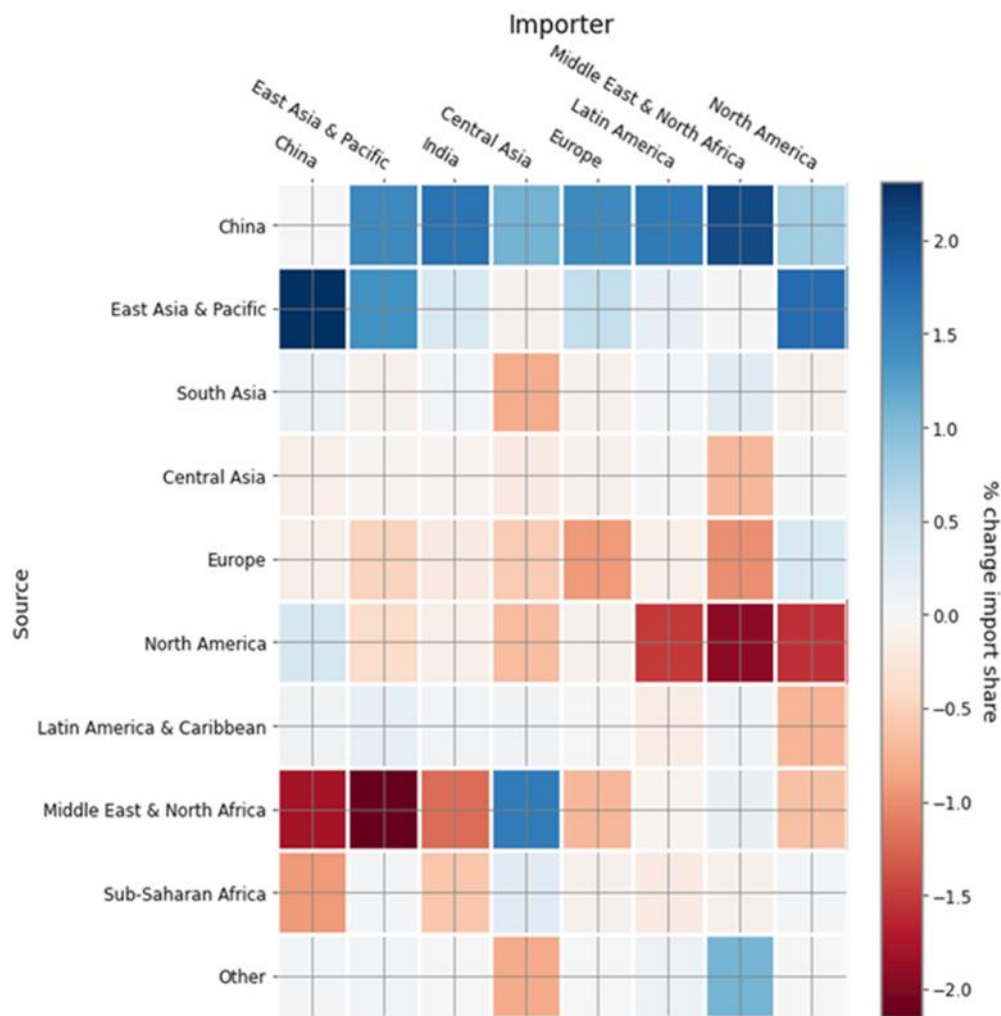


Figure 5. reallocation of import shares in 2020 [12]

China benefited from it since the demand of Chinese export increased and the import shares of other countries changed positively same as the region of East Asia. Unfortunately, the import share of other countries decreased in North America and Middle East, corresponding to Figure 4.

3.2 International Trade in Britain

The UK has quitted European Monetary Union, and thus, the trade among countries for the UK was difficult.

The service types of trade most influenced by coronavirus disease were restricted by recommended social distance and policies, including staying at home. Subsequently, the exports and imports of travelling fell dramatically, combined with policies of implementation and travel bans.

Restrictions on transportation responded to travelling-related policies. Transportation method, including sea transport and air transport, was also limited and declined from 2019 to 2020. Transportation imports and exports fell by £4.0 billion (53.3%) and £2.5 billion (33.7%) respectively compared with Quarter 2 in 2019. Falls in imports was driven by a £3.8 billion (79.7%) decrease in air transportation, particularly air transportation imports from Ireland, which fell by £1.5 billion (83.4%). Consequently, the rise in the cost of transportation restricted the export in the UK and also affected storage in businesses.

The export challenges overweighed import challenges in the UK. Firstly, the closure of domestic infrastructure contributed to the consequence, leading domestic productivity to decrease, which led to lower quality and quantity of outputs and exports which represents lower competitiveness. Thus, consumers relied more on imports due to a lack of output. Secondly, the border restrictions also affected the plan of export that Britain's exports could not enter certain countries.

3.3 International trade in France

France is a member of the Euro Zone and OECD. The liquidity of trade among members in the European Monetary Union would be quicker and freer since they eliminate the trade barriers and that was helpful for France in its export and import during Covid-19.

In France, the government forced many small businesses to shut down entirely or change their business model to offer take-out or delivery options due to Covid-19 in 2020. Under this social circumstance, business confidence and consumer confidence fell significantly. Thus, the French government of France launched a two-year €100 billion (\$ billion) recovery plan called the Plan de Reliance in September 2020 to deal with decreasing GDP.

Although France suffered from the pandemic, the relationship between it and the USA remained stable and friendly.

In 2019, there was a large amount of foreign direct investment in France and many multinational corporations were established in France, which built a fundament for France.

In the fourth quarter of 2022 in France, the top export was chemicals, mainly exporting to Germany, the USA and Italy. France could take advantage of the membership of the Euro Zone since it eliminates trade barriers for international trade while all countries suffered from the pandemic, which is a crucial period for them and live hard. Lots of scarce resources are required in this period, and however, fortunately, France could import products from member countries freely[12].

3.4 Comparison analysis

The export value in 2019 was 468 billion euro, and in 2020 was 395 billion euro, and in 2021 was 665.1 billion euro[13]. The UK has left the EU, and thus, the export tended to face some issues, such as protectionism including tariffs and quotas, which represents that the UK cannot benefit from the EU. At the same time, however, withdrawal from the EU affects imports to a lesser extent. Both export and import were influenced by policies which banned the routes of transport and the closure of infrastructure. The economy in the UK was harmed by the pandemic to some extent, mostly due to a lack of exports led by lower productivity. Consequently, it is suitable for the UK to use interventionist supply-side policies, and then deal with the problem of infrastructure at first. According to the data, the UK export value recovered in 2021, so the export promotion strategy is also available.

For France, France exports for 2019 was 862.77 billion dollars, for 2020 was 472 billion dollars, for 2021 was 568.3 billion dollars[14]. France could concentrate on chemicals. The top exports of France include cars and machines, which were always transported by ship. Thus, the export of these products was influenced negatively due to the rise in the delivery cost. France is a member of the European Monetary Union, so it could benefit from it, which is distinct from the condition of the United Kingdom. Thus, it is appropriate to apply for export promotion as a trading strategy since it has opportunities to gain from exports.

4. Results and discussion

The export value decreased during the Covid-19 period significantly, and the transport or delivery was a fatal problem in both France and the UK. However, the infrastructure in the UK was seldom used in economic activities due to the closure, and the infrastructure in France was influenced hardly. The UK has quit the European Monetary Union, but France did not.

4.1 Brexit trade result

As described above, the decrease in UK exports is mainly due to the lack of productivity. The impact brought by Brexit on the car industry would lead to the production fall by 12% and prices rise by 2.5% in UK[1]. On the one hand, this lack of productivity was brought about by the outbreak of epidemic. More importantly, on the other hand, exit from the EU causes a significant decrease in the attractiveness of foreign direct investment (FDI), which reduced national productivity and hence

output and wages. Also, nearly half of the UK's FDI stock is from the member states of the EU. Some of the UK's appeals to foreign investors is its easy access to the EU market. The rising cost of trade with the EU after the UK leaves the EU may discourage foreign direct investment. The empirical study from Dhingra et al estimates the EU membership has increased FDI by about 28%[1].

The data from this study indicated the trade value decreased in 2020 but recover in 2021 in both Britain and France. However, in contrast to France, more disadvantages in trade situations Britain have to face. First, with the loss of EU membership, the UK becomes less attractive for FDI and this loss of competitiveness could lead to a shift of FDI to other EU countries. Second, the loss of Britain's EU membership can lead to the disadvantage in the regulation negotiation at the European Court of Justice. Third, due to the rise in trade delivery costs, France can benefit more than the UK. As the UK is an island nation, shipping by sea and air is required and transport costs are higher compared to France, a continental country.

4.2 Recommendation for Britain and France trade policy

Interventionist supply-side strategy could be used in the UK, including the repair and maintenance of infrastructure, which is necessary for economic activities, and thus, it will be helpful for the UK to improve its productivity, promoting the export value. However, it also has some threats. For instance, it has the time-lag, achieving ideal results after several years, that is not efficient during the period of the pandemic. Moreover, the government budget is also a problem, but it can bring higher export value and more job creation for domestic people, and economic growth could also be achieved through the application of this strategy. The CPI was 114.1 in 2021 (the one in 2015 was 100), increasing since 2020 which had a CPI of 109.4[15]. The inflation could be controlled by implementing this strategy due to the decrease in the cost of production which belongs to cost-push inflation. All of the above are beneficial for the UK in the pandemic.

Export promotion is a trade strategy to encourage economic growth through increased international trade and the promotion of export industries. French GDP was decreasing in 2019 from 1.8% growth rate to 7.9% growth rate in 2020[16]. This strategy could be used to improve GDP and export value, beneficial for France. This strategy includes protectionist, liberalized trade, liberalized capital flows, investment in infrastructure and deregulation and minimal government intervention. Rising exports increase aggregate demand, leading GDP to grow, and increasing employment. Also, the export earnings alleviate the balance of payment problems, and entrepreneurial skills could be acquired by operators of businesses. France could export to member countries of the European Union to solve the problem related to access to foreign markets.

5. Conclusions

The result of the referendum was for the UK to leave the EU. But with the unprecedented outbreak of Covid-19, Britain's trade situation gets tougher. Both the epidemic and Brexit all exacerbate the reduction of national productivity, trade delivery cost and damage to the financial industry. So, this paper concludes that it is not a wise decision to withdraw EU, and exiting from a large international trade bloc will reduce a country's resilience to risk, such as an epidemic.

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