

Research on Political and Economic Trends before and after Brexit: Take the Position of the Pound and Changes in the Exchange Rate as an Example

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Abstract. As a former overlord of the world, Britain has always played an important role in Europe. In the process of multi-polarization, the European Union has become the general trend and gradually moved towards a whole. Since the 21st century, European integration has entered a period of decline. Due to the historical tradition of independence and the practical reasons for political and economic differences, Britain chose to leave the European Union, which further aggravated the crisis of the European Union. It is of great significance to deeply study the reasons for Brexit, the changing trend of Britain's political and economic status, and the political and economic impact of Brexit on Britain, the European Union, and even the world. Therefore, this paper will study the economic trend of the UK before and after Brexit from the perspective of the status of the pound and the change in the exchange rate and analyze the world status and political influence of the UK before and after Brexit from the perspective of international relations. At the same time, this paper will use literature analysis to search and read relevant materials and literature, use economic newspapers and other specific data to support personal views, analyze economic changes, and then draw research results. In the future, the British economy will face greater challenges, and in the political aspect, it is likely to further move closer to the United States and strengthen economic and security cooperation with English-speaking countries such as North America, Australia, and South Asia.

Keywords: Brexit, political and economic trends, status of the pound.

1. Introduction

This study focuses on the historical background of Brexit from an international perspective and explores the political and economic trends before and after Brexit. This study is of great significance to the history of British political economy and international relations and can clarify the political and economic impact of Brexit on Britain, EU countries, and even the world, as well as the changes in the international situation caused by it. This study is mainly carried out from three aspects: the historical background and practical reasons for Brexit, the status of the British pound and the economic status of the UK before and after Brexit, and the political and economic impact of Brexit on the world. Literature analysis is used to search and read relevant materials and literature. The advantage of this method is that it can well analyze the changes in political and economic trends and academic opinions after Britain leaves the EU, which is conducive to the research. The ultimate goal of this study is to explore the political and economic trends before and after Brexit [1]. To achieve this goal, this paper has sorted out and analyzed the changes in the status of the British pound and the changes in the exchange rate, to achieve the purpose of exploration.

2. Background and Reason Analysis of Brexit

2.1. Historical Background of Brexit

Britain has a history of independence. As early as the late 19th century, when the great powers of Europe were allied for hegemony, the British Conservative Party leader Benjamin Disraeli and the Marquess of Salisbury pursued a foreign policy of glorious isolation. This "correct policy" has established the characteristics of coordination and isolation in great power alliance diplomacy. Therefore, keeping a distance from the European continent has become a consistent political wisdom

and political tradition of the United Kingdom, which is also the historical reason for the United Kingdom to leave the European Union. After the end of World War II, the British attitude towards war was very different from that of continental European countries, which also led to different attitudes towards the European Union. While some continental Europeans see the Second World War as a past they do not want to revisit, Britain is proud of it [1]. Therefore, the British people believe that the union with Europe is not in line with the status of Great Britain, and the British upper class has always held a "eurosceptic" mentality [2].

As early as when the United Kingdom "entered Europe", its purpose was to regain the leadership of Europe, ensure its status as a traditional ally of the United States, and join the European common market to "make a living". So, as a matter of last resort, Britain held an aloof attitude towards the European Community. At the same time, because the United Kingdom wants to enjoy a series of special conditions, the United Kingdom has long been difficult to reconcile with the EU, and it has lost the ability to organize Europe towards a federal system.

2.2. Practical Reasons for Brexit

Before Brexit, Britain had many political and economic differences with the EU. For example, when the euro was launched in 2002, Britain firmly maintained the status of the pound, believing that the eurozone was not only an economic issue in Britain but more importantly a political issue. Most fear that monetary unification will eventually lead to Europe becoming one country and Britain becoming a province of the EU [3]. Because the pound, as the monetary unit of the United Kingdom, ensures that the monetary power of the United Kingdom is controlled by the Parliament rather than the European Central Bank, the United Kingdom still can control and influence the national economy, and can use the devaluation of the currency to stimulate exports, increase monetary input to mitigate economic recession and other competitive means. On the other hand, in the ten years from 1995 to 2005, the growth rate of the British economy is quite outstanding in the European countries, better than Germany and France [4]. This is also why the UK does not adhere to the *Treaty on European Union's* economic convergence criteria for fiscal policy.

At the most severe moment of the economic crisis in 2009, the annual GDP growth rate of the EU and the UK was about -4.2%. From the economic recovery situation before the Brexit referendum from 2010 to 2016, the UK's economic recovery was strong, and the annual GDP growth rate of the EU as a whole was about 1.27%, while that of the UK was 1.98%. The eurozone is even worse (0.98%) [5]. This has also led to a dispute over the outlook for the market. In the European debt crisis, Britain has received the most severe impact in the EU, which is reflected in the fact that its export capacity to Europe has been greatly reduced, but the risk of the British banking industry's investment in Europe has been increased. At the same time, the UK and other EU member states have different opinions on whether to continue to provide regional public goods and jointly deal with the European debt crisis, and the conflict is deepening.

The ensuing migration crisis became the trigger for Britain to leave the European Union. According to statistics, from 2004 to 2014, the number of immigrants per quarter was mostly around 100,000, and in the eight quarters before the Brexit referendum, the number of immigrants in Britain increased significantly, reaching an average of 166,000 per quarter [6]. The influx of Syrian refugees in 2015 only exacerbated the situation. After the UK joined the EU, European human rights legislation and the principle of free movement prevented the UK from deporting foreign criminals and terrorists and reaching the expected net migration target, which brought about long-term social unrest. Therefore, the public believes that immigration affects social stability, and its adverse impact has exceeded the economic development promoted by immigrant labor. The increasingly fierce immigration crisis has overwhelmed the British government.

In addition, the UK's insistence on "three-ring diplomacy" has also planted landmines between the UK and the EU. When Britain joined the EU, it maintained a "special relationship" with the United States and the Commonwealth. In particular, it still regarded the Atlantic alliance as the cornerstone

of its foreign policy, which became one of the important reasons for the lack of close ties between Britain and the EU.

3. The Impact of Brexit on Britain's International Standing

As early as 1694, the Bank of England began to issue banknotes named sterling, in 1821, the United Kingdom formally established the gold standard proposed by Newton, and the British pound as an important international currency boarded its historical stage. With the rapid development of the British economy, the pound soon established its dominant position, and the world currency entered the era of the pound. After the 1940s, the two World Wars brought great harm to many old European capitalist countries, but the United States benefited from the war and became the most powerful country in the world economy at that time, and the dollar replaced the pound as the most used international currency at that time. But around 40% of the world's trade was still settled in sterling, and London remained an international financial center. It was not until 1944, when the Bretton Woods Conference established a new international monetary system, that the dollar was directly linked to gold, replacing the British pound as the core of the international monetary system. After the war, Britain's economic difficulties and a large outflow of gold reserves made the pound completely lose its hegemonic position.

After Brexit, British trade and capital flows have been greatly impacted. In the short term, some funds have already flowed out of safe-haven assets such as the US dollar and the Japanese yen, which will weigh on domestic investment in the UK and affect its domestic economy. In the medium and long term, more capital will continue to flow out of the UK and the EU, which will undoubtedly put great pressure on the future trend of the pound and the euro [7]. From the perspective of the currency field, after the Brexit referendum, the British pound has suffered a significant depreciation, and the market panic has been growing, resulting in a large amount of capital outflow. Under this pressure, the Bank of England has to maintain market liquidity, maintain quantitative easing, or adopt looser monetary policy to stimulate economic recovery. Among them, changing the interest rate is the most direct monetary policy to regulate the market. However, after Brexit, the exchange rate of the pound has fallen sharply, and the interest rate cut will further suppress the exchange rate, increase inflation, and increase the cost of imports; interest rate cuts will also reduce the return on capital investment, leading to more capital outflows, which is not conducive to the further development of the pound.

Looking ahead, both the pound and the euro have rebounded in recent years and have continued to strengthen against the dollar. Specifically, the performance of the pound is relatively stronger, in the first half of 2023, the pound closed at 1.2695 against the US dollar, 622 points higher than the end of 2022 1.2073, an increase of 4.96%. Looking ahead, the UK and eurozone will find a balance between lower inflation and stable economic growth, which could change the direction of sterling and the euro [8]. At the same time, the United Kingdom is also pursuing the development of digital currencies, according to the official roadmap for the digital pound, the decision on whether to launch a digital pound is expected to be made between 2025 and 2026 and requires parliamentary approval. The UK believes a digital pound may be necessary to keep pace with payment innovation and provide a state-issued form of digital currency. Therefore, the future of the pound will make new history along with the development of the British economy.

4. The Impact of Brexit on Britain's International Standing

4.1. The Impact of Brexit on Britain

The break of the economic and industrial chain and the readjustment and adaptation of laws and regulations have made the United Kingdom experience a period of economic turmoil after Brexit, which has had a great impact on the political and economic aspects of Britain.

The first is economic. In the short term, the island economy of the United Kingdom itself has greater autonomy, and after leaving the economic control of the EU, it can obtain greater freedom: it

does not have to pay huge amounts of money regularly, it is not subject to economic exchanges within the EU, and it can attract more talents and provide more employment opportunities for its development. But in the long run, Brexit will lose the economic convenience brought by the EU; The damage to its international image has also led to a decline in its economic attractiveness; Not only will Britain's status as a financial center be affected, but the development of its agriculture, industry, energy, real estate and other related industries will also be limited [9].

Secondly, in the political aspect, with the turmoil in the British economy, relying on the superstructure of the economic base has also caused the problem of latent national division for a long time. The upsurge of the Scottish national independence movement has made national independence and division a new issue after Britain left the European Union.

4.2. The Impact of Brexit on Other EU Countries

Politically, Brexit has left the EU facing a contradiction between division and unity. As a big country, Britain's move to leave the EU will bring a negative demonstration effect, making other countries leave the EU when they encounter development problems, bringing a potential divisive factor to European integration. In addition to this, Brexit has also affected the role and role of the EU in a multi-polar world. After Brexit, the contradiction between Britain and the European Union has deepened, and its dependence on the United States has been greatly strengthened, further consolidating the dominant position of the United States in the multi-polar trend [10].

Economically, Britain's decision to leave the European Union has had a great impact on the international economic order. Brexit has directly affected Europe's financial sector, while also leading to the loss of economies of scale in the EU's large market. According to the exchange rate of the euro against the US dollar on December 30, 2016, the total GDP of the EU in 2016 was about 15.57 trillion US dollars, and the GDP of the UK in 2016 was about 2.63 trillion US dollars, accounting for about 16.89% of the EU. China's total GDP in 2016 reached 11. At \$1.28 trillion, the EU's relative advantage over China's total GDP drops sharply after the UK's GDP is removed [11]. After Brexit, it can be seen that the relationship between Britain and the EU is bitter. In previous economic activities, nearly half of the UK's trade volume came from other European countries, and after Brexit, the trade costs of other EU countries were also forced to rise, affecting the overall economic situation in Europe.

4.3. The Impact of Brexit on the World Pattern

At the same time, the Brexit event has also made trade protectionism "rise", and trade barriers have been set up between countries. Britain and the European Union have also become a political topic, although international economic development is still stable, it has an implicit egotism [12]. On this basis, economic globalization is still the main theme of The Times, but the Brexit referendum reflects a trend of anti-globalization, and the international political and economic pattern has shown some new characteristics [13]. Brexit has made global governance more uncertain.

As far as the monetary field is concerned, the power status pattern among the major currencies is constantly changing. The dollar, which had been gradually fading in the post-financial era, gained credibility after the European debt crisis and Brexit, consolidating its dominant position as the core currency to some extent. The euro, on the other hand, has been thrust into the center of controversy, and the international status of the pound is constantly in turmoil. In the field of trade, Brexit has broken the previous trade mode inside and outside the EU, complicated the trade process, and objectively delayed the negotiation process of TTIP, which is not conducive to the development trend of economic globalization. In the field of development, Brexit reflects the importance of focusing on domestic livelihoods, and the urgent need to pay attention to the relationship between global governance and domestic governance [14]. Finally, in the field of security, one of the reasons for Britain to leave the EU is to shut out the immigration issue, the European debt crisis, and other unstable factors, but the solution to these problems fundamentally requires a global governance system and governance capacity, so it is more important to conform to the trend of development in the era of globalization from the perspective of a community with a shared future for mankind.

5. Conclusion

The result of this study is that the political economy of the UK has been seriously affected after Brexit. From the sharp decline in the exchange rate of the British pound after Brexit, we can see that the status of the British pound has further declined, and the development of the British pound has been hindered in the short term, which makes the economic recovery of the UK face great challenges. It further concludes that Britain's international status is no longer glorious, and Brexit not only brings potential divisive factors to European politics but also brings instability factors such as ethnic division to the United Kingdom, which is still recovering and developing. In the future, the British economy will face greater challenges, and in the political aspect, it is likely to further move closer to the United States, and strengthen economic and security cooperation with English-speaking countries such as North America, Australia, and South Asia. At the same time, Brexit will make the international relations of the Western world more complicated, and under the framework of G7, NATO, and the UN Security Council, the cooperation between the UK and EU member states may be more restricted. This study provides a lot of valuable reference significance for future research in this direction, mainly affecting the research on the historical process and development trend of the United Kingdom after Brexit. It not only summarizes the research results of the past few years but also puts forward a unique Angle to analyze the economic and political trend from the perspective of the British pound, which is conducive to the development of research on the history of political economy. Future research should focus more on the political and economic direction from a diversified perspective, especially contemporary history, to find more lessons for future development, to guide the new development process.

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