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Bulgarian Journal of International Economics and Politics is a biannual open-access academic journal published in English language by the University of National and World Economy. The Journal offers a forum for the publication of scientific articles, research papers, book reviews, and other forms of academic writings related to the complex and multifaceted issues of international economics and politics. Invited are authors at various stages of their academic career from renowned academics to young researchers, in the field of international economic and political relations and related topics at national, regional and global level. Given its interdisciplinary thematic scope, the Journal invites unpublished manuscripts on:

- Current global and international issues, trends and developments;
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- International cooperation, institutions, organisations, regimes and global governance;
- Theory and history of international relations and of international political economy;
- World economy and international economic relations;
- International business;
- Issues of international security and conflict;
- European affairs;
- Area and regional studies (Central and Eastern Europe, Black Sea region, Western Balkans, Baltic region, Caucasus, Central Asia, Middle East, etc.);
- Foreign policy and foreign economic relations of Bulgaria and other countries.

The contributions could address theoretical or methodological issues or present results from empirical research in the described broad BJIEP field. A double-blind review process is employed to select the manuscripts that are to be published.

The Journal addresses a wide-ranging profile of readers encompassing members of academia, students, as well as policy-makers and practitioners from national, European and international institutions, business representatives, and larger interested audience.

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BJIEP Issue 1/Volume 1 Editorial note

The first issue of *Bulgarian Journal of International Economics and Politics* is focused on Brexit – a complex and manifold topic that is both current and yet consequential in a number of ways. For the first time in the history of European integration with the actual cease of the United Kingdom’s EU membership as of February 1, 2020, the Union has been witnessing the withdrawal of a major member-state and termination of 47 years of membership. The United Kingdom used to be the EU’s second largest economy, the strongest EU military power, one of the two EU’s nuclear powers and permanent UN Security Council members, the largest global financial centre, the country, that gave the world the modern *lingua franca* and some of the world’s best universities.

Being undoubtedly the biggest shock for the European integration since its formal inception in 1958, Brexit has been raising a number of important political, economic, social, legal and cultural issues and many answers are yet to be sought. Throughout the transitional period there has been mounting uncertainty about the parameters of the future partnership between the EU and the UK following Brexit. Possible scenarios included options for a “soft” exit (with the UK remaining in the European Economic Area similar to Norway) and a “hard” exit (in which trade and economic relations are governed by the WTO rules). After lengthy talks, London and Brussels managed to reach a “last minute” agreement on December 24, 2020. Thus, from January 1, 2021 the United Kingdom, while maintaining duty-free trade in bilateral relations with the EU, has exposed them to a number of non-tariff barriers, leaving the internal market and the customs union. Political and economic implications and consequences of Brexit are yet to unfold as is the interest on the topic. Moreover, the coinciding of Brexit with the worst socio-economic crisis in the global economy caused by the COVID-19 pandemic, has further contributed to placing Brexit in the spotlight of academic and research attention.

The articles that are published in the current BJIEP issue are selected among the contributions to the international conference “The EU after Brexit” organized by the Faculty of International Economics and Politics at UNWE in June 2021. At the conference scholars from universities and research institutions in more than 10 countries discussed and exchanged ideas in an interdisciplinary debate on Brexit, focusing on the risks and opportunities for the EU, Southeast European countries, Bulgaria and third countries, shedding light on the *political, economic, social, legal and cultural* aspects of the phenomenon. The papers published in the current BJIEP issue reflect the multifaceted nature of Brexit in terms of both their thematic scope and their scientific and methodological underpinnings.

Estimating the Impact of EU Membership on United Kingdom's Export by Using Gravity Model

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Abstract

After a year from the formal UK withdrawal from the EU, there are still different opinions about the potential economic impact of Brexit. This paper gives a detailed overview of the trade profile of UK and explores the determinants of United Kingdom's export. We apply the gravity model to estimate the aggregate benefits of EU membership or the reversed, lost (foregone) benefits from leaving the EU. We measure the influence of GDP, distance, population, the EU membership, and signed free trade agreement with the trading partners on UK's export as a dependent variable. The analysis includes data for 70 UK trading partners in a period of 48 years (from 1973 to 2020) since Great Britain become EU member.

The results show that UK's export is directly proportional to trade partner's GDP and inversely proportional to distance. In order to estimate the average benefit due to EU membership, we estimated subsequent equations with different time periods. The coefficient decreases and becomes negative as we shorten the time periods, proving that the average trade advantage due to EU membership diminishes over time. According to the economic theory of regional integration, it is expected that the coefficient increases due to many rounds of enlargement, especially the biggest one in 2004 as well as due to the introduction of the Euro. On the contrary, as we shorten the time periods in the analysis, we obtained increasing coefficient for the variable free trade agreements. This confirms

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that trade exchange within FTA has significantly higher effect on United Kingdom's export in comparison with trade within EU.

Keywords: United Kingdom's export, EU membership, free trade agreements, gravity model, Brexit.

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Introduction

The United Kingdom was member of the EU for 47 years. It acceded the Union in 1973 and was officially the first member state that left the EU on 31 January 2020. During the UK's membership two referendums were held on the issue of its membership. The first referendum was held in 1975, and 67% of the people of the United Kingdom voted against leaving the EU. The second one was held in June 2016 and the results were in favor of leaving the EU (51.9% of the voters). At the end of January 2020, the country officially left the EU.

The United Kingdom has always been in favor of intergovernmental cooperation in the EU and therefore never became part of the Eurozone, Schengen zone, Charter of Fundamental Rights, The Fiscal Stability Treaty and many more European projects. The political stance within the United Kingdom that opposed the idea of EU was intensified after the financial crisis in 2008 and especially at the beginning of the migrant crisis in 2014. The UK was a top destination for migrants from the poorer EU states and the fear of refugees from Syria, Africa and the Middle East further intensified skepticism among voters and politicians.

Agreement on the terms of the future relationship between EU and the United Kingdom was reached at the end of 2020, by signing the EU-UK Trade and Cooperation Agreement (the Agreement or TCA) on 30 December 2020. Its provisional application as of 1 January 2021 establishes the terms of the new relationship between the EU and the UK, following the end of the transition period established by the Withdrawal Agreement (WA).

Following the exit from the EU, the UK's relations with its trading partners in and outside the European Union has changed. There are two considerations about the impact of Brexit on the trade relations of UK with the rest of the world. One view is that Brexit significantly weakens Britain's position in world trade. The country will cease to enjoy EU's collective bargaining power, considering that the EU is the world's largest trading block and has considerable power in international trade negotiations. Brexit means the UK's withdrawal from the EU customs union and common external customs regime of the European Union. In theory, the UK could participate in the customs union as a non-EU country, following the example of Turkey. However, the British government has made it clear that they intend to leave the customs union of the EU.

The second opinion is that Brexit strengthens the international trade position of the United Kingdom. As a member of the European Union, the UK was not' able to negotiate bilateral trade agreements with the rest of the world partners. Also, the

UK believes that the substantially overprotected agricultural policy in favor of the continental European farmers and other protectionist lobbies prevented the EU from concluding significant trade agreements. Leaving the EU will allow Britain to become a global “beacon” of free trade, concluding strong trade liberalization agreements with developed countries (Australia, New Zealand, United States) and emerging economies (Brazil, China, India).

Proponents of Brexit further argue that an independent Britain could better adapt to the international political environment. The withdrawal of Trump’s administration from TPP (Trans-Pacific Partnership) and the attacks on NAFTA (North American Free Trade Agreement) signal American hostility to regional trade agreements. There are very low prospects for a pact between the EU and the US under the TTIP (Transatlantic Trade and Investment Partnership), and this creates a niche for a bilateral trade agreement between the UK and the US.

The UK is among the top 10 in the world exporters and importers of trade in goods. Within the category of export of goods, the UK ranks 4th in air product exports, 6th in pharmaceuticals and 6th in motor vehicles. In 2019, the UK had \$226.11 billion deficit in trade in goods. But this trade deficit in goods was largely offset by a surplus of \$132.61 billion in services-related trade, reflecting the UK’s position as the world’s second leading exporter of services. In the services category, business and professional services represent the largest share in the export of services in the UK, followed by financial services and copyrights and licenses - global industrial services in which the UK has important competitive advantages. Trade in services of the United Kingdom is geographically more widespread than the trade in goods, with 37.2 per cent of UK services exports going to the EU versus 43.8% of UK exports of goods going to the EU (OECD, 2019).

Seven of UK’s top 10 global trading partners are countries from the EU. But with the partial exception of Germany, the growth rates of British trade with other EU countries are modest (except for Poland). The fastest growing export markets in the United Kingdom are outside the European Union: Switzerland, South Korea, Turkey, Saudi Arabia, China, and United Arab Emirates. However, free trade agreements between developed and emerging economies based on mutual concessions on agriculture and services have proven extremely difficult to complete.

After the introduction, in the second chapter we provide literature review on the application of gravity models on United Kingdom trade. In the third section we explain the specification of the model and in the fourth section we present the results. The final section, fifth, concludes.

Literature review

The consequences of Brexit on the UK economy are investigated in various institutional and academic studies, which employ different scenarios for the trade arrangements in the