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## Brexit and risks for the UK economy

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### Abstract

The objective of this study entitled "Brexit and the risks to the UK economy" is to understand Brexit and Brexit related events and the negative impacts of Brexit on the UK economy. Through different research and survey methods, we will have a basis to assess and forecast the status of the UK economy during and after the Brexit. This will guide in offering different solutions to improve the UK economy under the great impact of Brexit.

**Keywords:** Brexit, UK, economy, risk, trade, investment, finance

### 1. Introduction

The European Union (EU) is a political-economic alliance of member countries linked together. The European Union has developed a common market through a standard legal system applicable to all member countries to ensure the free flow of people, goods, services and the maintenance of general policies. Brexit is currently a global hot issue and global economic panorama. Brexit was formed by the fact that Britain left the European Union and Brexit had a great influence on the countries involved, affecting the economy of the United Kingdom and the whole world. Therefore, to approach and learn more about the Brexit, we chose the topic: "Brexit and the risks to the British economy" to study Brexit issues, the causes and the achieved results. On the basis of assessing and analyzing its negative impacts on the UK economy in particular and the world economy in general, we propose solutions to overcome risks for the UK economy. So, the object of the study is the Brexit event and the impacts that bring risks to the British economy and propose solutions to overcome the risks and improve the British economy in the context of Brexit.

### 2. Theoretical framework

#### 2.1 International economic links

International economic cooperation is an economic relationship which is beyond the scope of a country formed based on the agreement of two or more parties at the macro or micro level in order to create favorable conditions for economic and trade activities and development. Characteristics of international economic cooperation include <sup>[1]</sup>.

- The international economic links were established and operated in accordance with international laws and practices and on the basis of their charter.
- The international economic links established and operated with certain purposes are clearly stated in the charter of the organization.
- The international economic links have the system of permanent agencies to maintain the operation of the organization and contact with members.
- Causes of forming the international economic links <sup>[1]</sup>.
- The division of international labor is ever more open and specialized, the greater the cooperation between countries is, the more the need of the introduction of international economic links to meet the needs of cooperation and addressing common regional and global issues.
- The trend of globalization and regionalization is the general development trend of economy and international trade, the establishment and development of international economic links in line with that general trend.
- Economic openness and economic integration are the common trends of the current countries in the world so the formation and development of international economic links

is in line with the policies of international economic integration of countries.

- The establishment of international economic links brings about great economic benefits for member countries and the whole of the international economic cooperation<sup>[1]</sup>.
- To fully exploit the advantages of the economy and overcome weaknesses.
- Scientific and technical achievements are widely and faster disseminated.
- Competitiveness of the economy and of products increased.
- Collaboration between countries to solve many problems of the bloc is increasingly effective.

### 2.1.1 Types of international economic cooperation

#### a) Based on participants

- **Small association:** Links between companies or corporations together in each stage of the reproduction process.
  - Pre-production linkages: Research, design, testing;
  - Links in the manufacturing process: Specialization and cooperation;
  - Links after production: product consumption, advertising.
- **Major links:** Links between countries in which governments sign agreements with each other to create a common framework for the coordination and adjustment of international economic relations between member countries.

#### b) Based on the method of adjustment

- **Linkages between states:** The type of international linkages where the leading agencies are representatives of member countries participating with limited rights.
- The decisions of the association are for reference only to the Governments of the member countries.
- The final decisions depend on the views of each government (ASEM; APEC-Institutional Links).
- **Super-state linkage:** A type of international linkage in which joint leadership agencies are representatives of member countries have broader powers than linkages between states.
- The decisions of binding are binding on the member countries on the principle of majority (ASEAN, EU - Institutional association).

#### c) Based on the object and purpose of the link

- **Free trade area or free trade area (ASEAN, NAFTA, EFTA)**
- Reduce or eliminate tariff barriers and quantitative restrictions on a part of products and services when trading with each other.
- Going forward to create a unified market for goods and services.
- Each member still has its own trade policy with non-member countries.

- **Customs union**
- Is a free trade area.
- Member States applied a common tariff policy with non-member countries (EEC-European Economic Community before 1992).

- **Common market**

- As a customs union;
- Allow free movement of production factors (labor and capital) within the bloc.

- **Monetary union**

- Developing general economic policies including the general foreign trade policy.
- Forming a common currency instead of ethnic currencies of member nations.
- Unifying monetary circulation policy.
- Building a common banking system instead of central banks of member countries.
- Formulating financial, monetary and credit policies for countries outside the union and international financial institutions.

- **Economic alliance**

- As a common market (goods, services, labor and freely moving capital, countries with common tariffs for non-member countries);
- Unifying economic, financial and monetary policies, coordinating the adjustment of payment balance.

- **BTA trade linkage:** Signed between other countries on the region giving each other more favorable than the region and multilateral; FBTA: Upgraded from BTA. By the end of 2005, the number of FTAs in the world that were signed or under negotiation had reached 300 agreements (according to the Japan Trade Promotion Organization's White Paper-JETRO).

- **Investment Linkage:** In the past, linkages in the field of investment were often included in the content (free investment) in bilateral and regional free trade contracts. Today, countries have signed separate investment contracts.

### 2.1.2 The role of international economic cooperation

The establishment of international economic links brings about great economic benefits for the member countries and the whole international economic cooperation:

- Create a favorable international environment for international trade relations, finance and banking and investment. At the same time, solve employment issues, take advantage of science and technology advances, increase productivity and save time.
- The international division of labor has promoted its strengths, enhanced the restructuring of production, import and export, and changed the economic structure that formed the regional economic structure.
- Creating relative stability and flexible responses in developing international economic relations, promoting the development of long-term policies for bilateral and multilateral relations.

## 2.2 Secessionism and protectionism in the contemporary world economy

Secessionism is the support of the separation of a country that divides its culture, ethnicity, tribe, religion, race, government or gender from a larger group <sup>[2]</sup>. Protectionism is a government policy that protects some domestic producers against foreign competition through the erection of barriers to international trade, such as tariffs and quotas. There are many arguments supporting protectionism such as cheap labor, maintaining the balance of payments, protecting the young industry, improving the exchange rate, but in general they only serve Local interests of each sector or locality, rarely really serve national and international interests <sup>[3]</sup>.

There is broad consensus among economists that protectionism has a negative effect on economic growth and economic well-being, while free trade and the reduction of trade barriers have a positive effect to economic growth. Protectionism is often criticized by economists for hurting people who should have been helped by it. Most economists instead favor free trade. The principle of comparative advantage shows that the benefits of free trade outweigh any losses that can occur because free trade creates more work than is limited because it allows countries to specialize in producing goods and services that they have an advantage over other countries. According to economist Stephen P. Magee, the benefits of free trade outweigh its disadvantages as 100 to 1. Protectionism is also alleged to be one of the main causes of war. Advocates of this theory point to the continuing war of the 17th and 18th centuries in European countries whose governments were mostly conservatives and protectors, the American Revolution also came from tariffs and customs duties of Britain, as well as protection policies before World War I and World War II.

Recently, the trend of protectionism or protectionism has developed strongly in the US and some Western European countries. In these countries, forces that support economic liberalization are weakening and shrinking, while the protest movement of liberalization and protest of globalization has risen, especially after Brexit and the election of U.S. president. Following that trend, the number of protection measures has increased sharply, the field of protection has expanded with more complex and sophisticated measures. According to WTO statistics, in the period from mid-May to mid-October 2016, G20 member countries have applied 85 trade restrictive measures. Protection is not only limited to the exchange of goods and services, but also includes finance, investment protection, intellectual property and labor-free services. The return to protectionism, market closure, restriction of economic integration reduced support for multilateral trade freedom, hindered international trade and investment. The tendency of protection in some major economies, especially the US will increase the conflict, inherent disagreements on some economic and trade issues, thus increasing the conflict of interests, not excluded There are acts of retaliation leading to trade wars, exchange rates. This situation makes regional and global economic links face many difficulties, globalization tends to slow down <sup>[5]</sup>.

## 3. Causes of Britain leaving the European Union (EU)

On June 23, 2016, British Prime Minister David Cameron held a referendum on two opposing trends that were pro-EU

and wanted to leave the EU. As a result of the referendum, the British decided to leave the EU with 52% of the vote leaving compared to the remaining 48%. The percentage of British voters voting is 71.8%-equivalent to more than 30 million people. This is the highest percentage of voters in history since the 1992 election <sup>[10]</sup>. As a member of the European Union (EU), the UK has suffered many losses and disadvantages in economy, culture, finance. After the 2008 crisis, countries using the Euro were the hardest hit. More than 7 years after the public debt crisis broke out, Spain and Greece are now in a state of increasing debt, and unemployment rate has increased. At the same time, the pound exchange rate is higher than the Euro, making the cost of producing goods in the UK more expensive than in other countries. Therefore, goods from the UK will be reduced competitiveness compared with products from other countries. This caused a huge public debt crisis, greatly affecting the lives of people and the British economy.

Although the EU does not collect member countries' taxes, it is required every year that member countries contribute an amount to the EU central budget. Currently, the UK contributes about 13 billion pounds (equivalent to 19 billion USD) per year. Each British person has to contribute 300 USD/person/year. Although much of this money is spent on services in the UK, Brexit supporters still want Britain to keep the money in its home country and the British Parliament is the party that decides how to spend that money, instead of the EU. Having spent so much money to save the ally in crisis has made the British people feel not really satisfied. England is the 5th largest economy in the world, they can completely be independent and develop, but it takes a huge amount of money for the EU. That led to populism, growing European skepticism. Despite a large budget contribution to the EU, benefits are not guaranteed to industries in the UK. The steel industry is one of the UK's key industries, but the EU's common tax constraints have made it impossible to compete with cheap steel imported from China. This has led to steel corporations having to lay off their employees, leading to increasing unemployment and underemployment.

Immigration is one of the reasons Britain left the EU. In the Eurozone, economic difficulties, workers from the Middle East-Africa to the EU, such as Ireland, Italy and Lithuania, have flocked to the UK to find work. Supporters of the UK leaving the EU argue that immigrants increase the risk of unemployment, reduce local wages, are burdens on UK public services and threaten British identity. The UK government does not want immigrants from other EU countries to enjoy the same social benefits as indigenous peoples, such as tax breaks for low-income people within 4 years. However, this provision has faced many objections from EU countries, including Poland, Germany and the Czech Republic, which are the most strongly opposed. That has contributed to pushing the conflict between the UK and the EU to a higher level. Terrorism is flooding into Europe in an uncontrollable way. A series of street attacks in France and Belgium have scared the British people. Especially, when Syrian refugees are dragging more and more to Europe, British people feared terrorists would hide in the form of immigrants and come to Britain easily, and the Paris attack on the night of November 13, 2015 was a drop of water that spilled a glass, it had causing the fear of the

British people to its climax.

EU threatens British sovereignty. This is the most common argument among educated people in England. According to them, in recent years many EU regulations such as competition, agriculture and invention have overwhelmed the laws of member countries. Opponents of the EU claim that the EU's executive body is the European Commission (EC), which does not directly represent voters in the UK or in other member states. British leaders have had some influence in selecting EC members every 5 years. However, none of the EC members is responsible for the British government or represent the British in the European parliament. At the same time, the UK has been challenged by EU regulations. Many oppose the EU claim that EU regulations are too strict or even impossible, such as not recycling tea bags, children under the age of 8 are not allowed to blow balloons or have capacity restrictions on vacuums dust. According to statistics, EU regulations cost the British economy up to 600 million pounds (about 880 million USD) per week.

#### **4. The effects of Brexit and risks on the British economy**

##### **4.1 Positive effect**

The UK does not use the Euro when leaving the EU, which will help minimize the risk that the Euro will affect the cost of producing goods, directly affecting the British economy. Britain will be more autonomous in negotiating free trade agreements with countries outside the EU rather than subject to complex laws and regulations of the bloc. The Economist said that if the UK could negotiate a free trade agreement with Europe, GDP could increase by 1.6%. Leaving the EU means that Britain is free to decide on their TCs, their borders and their immigration policy. You will not need to wait for nods from the 27 other member states for their problems. The UK is no longer bound by the sometimes rigid EU rules and will not suffer the consequences of instability or scandals that have occurred from other member states. In addition, choosing to leave the EU, the UK will no longer have to spend £ 8.5 billion to contribute to the budget of the EU common roof; instead, the British want to spend this money to invest in the country in education or health care system. The competition of jobs, housing, social benefits of the British people with people immigration was no longer as fierce as before and the British national identity was upheld. Supporters leaving the EU also believe that the threat from terrorism will be lower if they are no longer a member of the EU. He will also be considered a safe haven to avoid financial risks in Europe, which will attract investors and push the value of the pound soar.

##### **4.2 Negative effects and risks on British economy**

Immediately after the announcement of the referendum results, the pound devalued significantly, down 12% compared to before June 23, 2016, the exchange rate between the pound and the US dollar dropped the lowest since May 9/1985. Not only the pound the euro also depreciated, while the price of gold, the US dollar and especially the Japanese yen increased. Economic growth of the UK and EU declined. According to the OECD, by 2018, the UK economy was down by nearly 1.5%; Brexit will also reduce the Euro Zones region's KT by 1%, the BRICS block

will also decrease by 0.6%, Japan by 0.5% and the US by 0.2%. IMF's forecast for England is even worse. The organization believes that the UK's economic growth will fall by 5.6% in 2019. The weak pound of sterling seriously reduces economic activity and causes a decline in investment. The size of the UK economy has decreased by 2% compared to the past. GDP lost 800 million pounds (1 billion USD)/week, equivalent to 4.7 million pounds (6 million USD)/hour<sup>[11]</sup>.

Stock markets also face the risk of falling in the context of weak growth and tougher export conditions that could adversely impact a number of sectors such as TC, exports, retail and real estate. At a time when public opinion in the UK was still divided over whether or not Britain left the EU, bond buyers globally, mainly in Asia, Europe and the US, began to be concerned about The impact of Brexit on UK companies and banks in particular and the European banking system in general.

The UK will face a sharp increase in import taxes, difficult trade negotiations, and reduced trade with other countries. According to UK Trade, as of April 2016, 48% of UK exports are to EU countries, and 47% of UK imports are from EU countries. Therefore, when the UK leaves the EU, tariff preferences may be suspended and subsequent TM negotiations will be difficult as the UK sits at the negotiating table with a weaker position both in terms of economy and technology. Besides, the process of negotiating trade with the rest of the world will take a lot of time because the current global trend of trade is more about negotiations between the blocs than between nations. The British Reserve predicts that by 2030, Britain's GDP will be reduced by 6% after Brexit.

There are currently about 1.2 million Britons living in other EU countries, and about 3 million EUs living in the UK. Thanks to the rules of the Union, they are able to travel with papers to the utmost simplify. However, after Brexit, if the current British immigration law is applied to EU citizens, the majority will lose their jobs and be forced to leave the UK. In contrast, some British immigrants may lose the right to continue living or working in the EU, and be deported. Brexit will limit the chances of the best individuals in Europe to come to the UK to work. The British will lose more than 10,000 jobs related to banking industry. A series of other fields such as mechanics, construction, healthcare and services will be negatively affected by the struggles during the Brexit event between the UK and EU. The labor market fell into instability and lost about 950,000 jobs, pushing the unemployment rate up to 3%. Moreover, the loss of passport rights after Brexit will be one of the biggest worries in London. If the passport rights are removed, then the UK will no longer be an important financial center of Europe, giving the UK thousands of jobs and billions of pounds of profits. About 5,500 companies are registered to operate in the UK based on EU passport rights for financial services and they make a profit of £ 9 billion.

Leaving the EU means that free trade between European countries will be limited and risky. Difficulties in free trade make the export of British goods more difficult, higher costs than other countries in Europe. Experts estimate that the UK could lose its AAA credit rating, KT will drop in the next 5 years, suffer losses of up to £ 100 billion - equivalent to 5% of gross domestic product (GDP), GDP will decrease by 4-

10%, the pound depreciated by 20%. Great Britain will face great risks of losing international power when leaving a strong EU trade union. Previously, the UK benefited from the EU because it was considered a long-standing financial center, bringing cash flow to training, education, tourism, and, importantly, the real estate market. This helps the UK attract FDI inflows, GDP growth and good jobs. When leaving the EU, this advantage disappears and suffers from a decline in FDI, thus reducing total investment and reducing GDP growth.

The stock market in the UK also had a wobble. FTSE 250 index-the stock index of the companies that mainly profit in the UK has dropped by 10% since the referendum. In particular, the banks seem to be the organizations that suffer the most. Shares of banks such as Lloyds, Barclays and Royal Bank of Scotland plummeted at 21%, 20% and 18%. Experts calculate that since the referendum, the deficit in England has reached £ 935 billion. This could put pressure on the dividend value businesses pay their shareholders as well as reduce the ability to raise wages and hire more workers.

#### 4.3 The proposed solutions limit risks to the British economy

- Conduct negotiations to ensure the interests of British citizens living and working in countries in the European Union (EU), conducting discussions to ensure the circulation of goods between The UK-EU agreement ensure that the signed documents are implemented in accordance with the terms.
- Call for investment from abroad with tax incentive programs. Strengthen the building of sustainable and jointly developed relations with other countries in the world and EU members in the future.
- The British Government needs to take strong and drastic action in implementing monetary easing policy as well as applying many fiscal measures to strengthen market confidence and prevent the possibility of the economy falling into recession. regression in the near future.
- The Ministry of Finance should promote borrowing with interest rates for long-term investment projects. The UK government must also focus on developing electronic infrastructure and human resources alongside transportation projects such as railroads or airports. At the same time, the Ministry of Finance and BoE need to have a harmonious coordination, whereby the Ministry of Finance will issue infrastructure development bonds and BoE is the buyer of bonds through the monetary easing program.
- Develop and improve key industries of the British economy such as electronics, chemistry and machinery, transport. Make the most of energy and oil resources and use renewable and environmentally friendly energy sources. Increase import and re-export of goods from other countries, export of machinery and transport equipment. Change import-export model to increase competitiveness and fit with the current trade situation.

#### 4. Conclusion and recommendation

##### 4.1 Conclusion

Brexit is an event that is always concerned about the world and anxiously looking forward to its development. With the

expectation from the beginning when implementing this topic is to understand Brexit as well as its negative impacts on the British economy; The research team answered the research question by looking at the realities of UK and EU relationships, the reasons for the UK leaving the EU and the effects of Brexit and the risks on the British economy. Through this, the research team came up with various solutions to improve the British economy under the great impact of Brexit. With the contributions of the topic and the solutions mentioned above, the group hopes that the British economy will gradually improve and develop stronger.

#### 4.2 Recommendation

- Strengthen and develop strategic alliances with the United States of which NATO is an important nucleus.
- Develop relations with the EU but are not counterbalanced with the United States, strengthen British influence and leadership in Europe, promoting the role of a bridge between Europe and the US.
- Strengthen relations with economies with the BRICs group; promote cooperation with Gulf and Middle East countries.
- Promote the role of the United Nations in activities of preserving security and peace, developing friendly relations between nations, international cooperation in economic, social, cultural, human affairs and the protection of human rights.
- Taking the lead in environmental protection and sustainable development issues.
- Recently, the UK has begun to strengthen its relations with ASEAN countries and Asia, previously not focused on strengthening its role and position in the former colonies in the region in the face of increasing influence. China and promote the expansion of economic cooperation with the region.

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