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Brexit and risks for the world economy

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Abstract

The event of the United Kingdom, a great power of the world, leaving the EU is gaining the attention of the public. The people of this country have voted to choose the path that they think is best for their country, but there are many unanimous views that Brexit increases the risks for the global economy. At the same time, many EU member states as well as business partners suffer from certain effects. Understanding the magnitude of the problem, the article addresses the Brexit concept, thereby evaluating and analyzing its negative impacts on the global economy with the possible economic and financial implications brought about by Brexit.

Keywords: Brexit, risk, world economy, EU

1. Introduction

The United Kingdom is a relatively isolated island nation from the rest of Europe throughout its history. Even when European countries formed an alliance between European countries after World War II, Britain was out of the game. England in turn refused to join the European Coal and Steel Community (ECSC) in 1951 and then the European Economic Community (EEC) in 1957. It was several years later, when the economies of France and Germany recovered quickly and forming a strong alliance, the British authorities gradually changed their views on joining the EEC. The British government applied to join the EEC in 1961, but was rejected twice by French President Charles de Gaulle in 1963 and 1967. It was not until 1973 that England officially became a member of the EEC. In 1990, the UK joined the European Monetary System (EMS) with the goal of stabilizing the fixed exchange rate throughout the bloc. However, only two years later Britain announced its withdrawal from the system, after the pound crisis. In 1995, the UK also refused to join the Schengen Agreement on freedom of movement between member states and did not use the common European currency. Following the global financial crisis and public debt in several European countries, the UK refused to sign the 2011 EU-Fiscal and Budget Treaty to overcome some of the country's own financial problems encountered. Since 2010, polls show that the British public has had a split in leaving or staying in the European Union. In January 2013, Prime Minister David Cameron pledged to hold a referendum if he won the 2015 general election. Prior to the general election, a number of MPs from UK political parties including the Party Conservatives and some other parties such as the British Independent Party (UKIP), the British National Party had called for a referendum. The EU is an economic-political bloc of 28 countries, established after World War II to strengthen economic cooperation among its members. But these lawmakers, however, argue that the EU has changed a lot since its inception and expanded control over people's daily lives. In addition, a number of other arguments include the idea that Britain was constrained by the EU with its business regulations, huge membership fees that received little benefit. Despite opposing Brexit, Prime Minister David Cameron decided to agree for a referendum to take place.

2. Theoretical Framework

Up to now, there is no unified definition of risks, different schools and different authors give different risk definitions. These definitions are diverse and plentiful but can be divided into two major schools: the traditional school and the neutral school. According to the traditional thinking, risk is the damage, loss, danger or factors related to danger, difficulty, or uncertainty that can occur to humans.

According to the neutralist school, risks are measurable uncertainties. Risks are twofold: both positive and negative. Risks can cause losses, losses, dangers, but also the risks that can bring people opportunities^[1].

Risk management is the process of approaching risk scientifically, comprehensively, continuously and systematically identifying, controlling, preventing and minimizing losses, losses and adverse effects of risks and at the same time potential to turn risks into opportunities for success^[1].

Globalization is a process of turning different regions, communities of people from an isolated state, separate from one another into a different state of substance, by connecting together into an organic unity. Then, an event, a phenomenon, a problem happening in this region, in this community will affect and affect other regions and communities on a worldwide scale.

Globalization contributes to the promotion and development of economic as well as socio-economic sectors of each country and the whole world through the process of market expansion, trade and tax relief. Increasing production factors such as capital (both fixed capital and human capital) and science and technology are encouraged through the liberalization of capital circulation, technology transfer, and development of an effective global communication system, lowering the costs of international transactions and production costs. Learn experience of management organization, economic development, science and technology, job creation, awareness raising and living standards of the people. Countries improve the quality of infrastructure, environmental quality, improve the wages of workers.

In addition to the positive effects, the benefits of globalization also have some negative effects that need to be limited. Globalization fades away, eroding the identity of traditional local cultural values. Through the WTO, developed countries are not willing to consume developing countries' exports, making it difficult for developing countries to participate in globalization. Developing countries to speed up the process of industrialization, exploitation and export of preliminarily processed mineral resources, the prices of these commodities are increasingly high, exported to highly developed countries. Low technology and import of high technology equipment leads to trade deficit. In the process of receiving aid, cooperative investment, developing countries due to lack of experience in organizing management, incomplete legal system and failing to manage corruption, ineffective investment projects. As a result, foreign debt has increased^[2].

Trade protectionism is an economic term that refers to the application of measures to protect the nation's goods and services industry by raising standards such as quality, hygiene, safety, labor, environment, origin or impose high import tax rates on some commodities; used in trade relations between countries. Trade protection is the intention of some economists and policymakers, but it has certain long-term effects on the nation's macro economy and the global economy. These effects can include limited consumer choices and they pay more for goods and services. A major effect of trade protection is that consumers will have a limited choice of quantity, quality, and type of product because quotas are imposed on imported goods. Another

problem consumers will face is that they have to pay more for limited quantities of goods, which can lead to a significant increase in inflation. In general, global competition is an important factor in keeping the prices of many goods and providing consumers with the ability to spend. Although protectionism is not a major cause of the global economic recession, this is certainly a worrying factor and can hinder overall growth. This is also reflected in the political field^[4].

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. Although it often refers to full political separatism, separatist groups may only seek greater autonomy. While some critics may equate separatism with religious division, racial segregation, or sexism, most separatists argue that separatism follows the choice is not the same as the division of government and can serve useful purposes^[5].

3. Research methodology

The first used methods of analysis and synthesis means studying information collected from related textbooks, books and newspapers, and summarizing it to have the most general, objective and multi-dimensional view of brexit and its effects on the international economy. In the current trend of economic globalization, in order to ensure the sustainable development of the business activities of nations, we must be able to adapt and improve ourselves to cooperate, integrate and catch opportunity in a timely manner. To do so, the business community needs to consciously build its own strong business culture. When integrating, we can hardly compete with large-scale enterprises in terms of capital, technology, price, talent, etc. So how do we build our own competitive advantage? How do we stand out from them? It is the business culture that is an important clue to differentiate Vietnamese enterprises, create prestige, reputation and vitality for businesses, maximize the capacity of individuals and guide them toward the strategic goal of business strategy, helping us to achieve success. Since then, new businesses have been able to promote their role, making an important contribution to the national policies of the Party and the State in the cause of national industrialization and modernization, deep integration into the international economy.

The second used method of summarizing practices to make ample clarification of theoretical issues is the collection of actual data through business results reports, figures and documents from experts. Then, all of them are summarized to identify the common risks and causes of risks, the degree of influence of risks, how other businesses prevent risks, the successes and failures of other businesses from which to draw lessons for their businesses. In fact, in the current context of integration, many Vietnamese enterprises have matured, sustained and developed strongly, but the main reason is that these enterprises have been attaching great importance to building a joint business culture. However, at present, many leaders, businesses and entrepreneurs are not aware of the role and motivation of business culture in integration, so in the course of business, they have revealed inadequacies and negative effects to the competitiveness of enterprises, reducing the performance of businesses.

4. Research Results and Discussion

4.1. Short-term Brexit impacts

4.1.1. Stock market

The focus of Europe in the second quarter was the development of a UK referendum on June 23, 2016 on whether the country would leave or remain in the European Union. In the first session after the referendum, the global stock market evaporated \$ 2.08 trillion, the largest absolute decline ever. European markets dropped the most, such as Italy and Spain (over 12%); London (7.2%); Japanese Nikkei (7.9%); S & P500 of the US (3.6%). After the weekend, the major stock exchanges in the world continued to decline, before recovering slightly afterwards. For both sessions, the FTSE 250 index of the UK lost 13.65%, the two stock exchanges in Italy and Spain also decreased by 15.9% and 14.0% respectively. Meanwhile, the US S&P 500 and Japan's Nikkei 225 also lost over 5% after two sessions.

4.1.2. Forex market

On the foreign exchange market, the pound has depreciated sharply against other major currencies such as Euro, USD or Japanese Yen. At the same time, the Euro also depreciated slightly against the USD. The Pound has been continuously falling and establishing its lowest level in 31 years. By the end of June 30, the GBP had depreciated 11.6% compared to the time before the referendum. Meanwhile, EUR also dropped by 3% in value against USD. Concerned about the uncertain future of the UK and European economy in the coming time, investors were looking for safe money and other assets. The two currencies that are most interested in at the moment are the USD and JPY. The Japanese Yen, in a different direction, is considered the safest currency at the moment. Even, this currency is still in an upward trend compared to the value of the dollar.

4.1.3. Property market

In the asset market, gold price is constantly fluctuating due to the increasing demand for investment in safe assets. In the UK market, right after the Brexit result, gold price increased by 3.8%. Gold price in the session on 4/7/2016 reached 1,348.8 USD / troy oz, up 9.3%. Gold price then kept relatively stable, maintained at around 1,340 USD / oz and only fluctuated within $\pm 2.2\%$. However, right after the information about the Brexit launch time was confirmed by the British Prime Minister, the asset market had a slight fluctuation. Gold price on 4/10 2016 has decreased by 3.6% to 1,268.0 USD / oz while the pound lost about 2%. Not only gold and strong currencies, countries with high safety levels such as the US, Switzerland, Japan or Germany were also selected by investors during this time. Government bond yields of these countries have dropped sharply after the referendum. Even in Japan, Switzerland and Germany, the yield for 10-year notes fell below 0%. Investors are willing to pay for these governments to keep money.

4.2. Long term impacts

4.2.1. Immigration issues

The big controversial issue in the farewell between the UK and EU concerns the influx of immigrants. Currently, the UK receives more than 300,000 (net) immigrants each year, including nearly 200,000 from the EU. According to

Woodford Fund (2016)^[16], this number of immigrants helps to increase about 0.5% of the annual labor force in the UK. This helps promote economic growth without leading to a rise in the domestic basic wage, thereby maintaining inflation and interest rates at low levels.

However, many Britons do not. They argue that EU-regulated immigrants reduce the amount of jobs and wages of local people. Therefore, British immigration policy will be one of the key factors in Brexit. The UK's application of the policy of tightening immigration flows from the EU as with other countries, if any, will greatly affect its economy:

+ In the short term, because the regulations cannot be changed immediately, the number of immigrants to the UK may increase massively. At the same time, those who have been in the UK will find a way to stay longer because they know it will be harder to come back after the new immigration rules are set. The same is true for UK residents currently immigrating to EU countries. Therefore, even though the UK announced a tightening of the immigration stream after Brexit, the net influx will only change slightly in the short term.

+ However, in the long term, net immigration from the EU to the UK will almost certainly decrease when the tightening immigration policy takes effect. Woodford Fund (2016)^[16] thinks that this brings both positive and negative aspects for the British economy. A declining labor force leads to pressure to raise wages and eventually to inflation. However, the UK government may impose new criteria on migrant workers from the EU, especially those related to labor quality. The new influx of immigrants is likely to be of better quality and help increase the labor productivity of the economy

4.2.2. International commerce

Trade is said to be the second aspect to be directly affected after Brexit took place. According to 2015 data, 47.3% of UK exports to EU countries 28 and 55.1% of imports from these countries. In addition, about 13.6% of UK goods export to FTAs with the EU (Global Counsel, 2015). In contrast, the volume of EU exports and imports to the UK accounts for a relatively modest share of total EU trade. This means that if Brexit takes place, the UK will be more affected. Many hypotheses stated that the UK will face the risk of renegotiating free trade agreements with the EU and countries with FTAs with the EU. However, within 2 years of negotiations, the UK still had full rights as a member of the EU. Most quantitative studies provide three main scenarios for the UK-EU post-Brexit relationship (Woodford Fund, 2016)^[16], (Schoof, Petersen, Aichele, & Felbermayr, 2015)^[13].

+ Norway's scenario: the current UK scenario is quite similar to Norway, outside the EU but still participating in the EU Economic Area (EEA). Therefore, the UK commodity market is still a single market within the EU and is not influenced by Brexit. However, this scenario is very unlikely.

+ Swiss scenario: UK will be similar to Switzerland, not in EEA but negotiating bilateral agreements with the EU. Under this scenario, a number of issues both sides are affected by, such as additional trade costs, non-trade barriers; rules of origin. However, in the long term, trade between the two sides will still be guaranteed in the long

term. This scenario is relatively reasonable but will take a long time to negotiate.

+ Worst case, the WTO scenario: assuming that the UK failed to negotiate FTAs with the EU, trade between the two sides would apply the most favored nation (MNF) rule in the WTO. Accordingly, the UK will treat the EU like non-EU countries and no FTAs with the UK. This has a significant impact on trade between the UK and the EU. However, Woodford Fund (2016) ^[16] also believes that the UK will have the opportunity to negotiate separate FTAs with non-EU countries. If taking advantage of opportunities, the impact of Brexit will be relatively small, even more beneficial to the UK in the long run. Egert and Gal (2016) show that trade openness can decrease by 4 percentage points after 10 years.

4.2.3. Foreign Direct Investment

According to official figures from the UK National Statistics Office (ONS), the accumulated FDI into the UK reached GBP 1,034.3 billion. In particular, investment capital from EU countries reached 495.8 billion GBP, accounting for 47.9% of total investment capital. However, the annual amount of FDI from the EU to the UK has dropped sharply in recent years, replaced by investment from non-EU countries. The ratio of FDI from EU countries to the UK has decreased from an average of 50.1% in the period of 2005-2009 to 48.4% in the period of 2010-2014.

4.2.4. Public area

Public finance is also one of the reasons why many people in the UK choose to leave the EU. In principle, the EU is not allowed to collect taxes directly, but through donations from member governments. According to the data, the British government contributed £ 18.8 billion, or 1% of the country's GDP, in 2014. Although much of this money is spent in the UK, Brexit supporters still want The British government kept and decided to spend the money. Britain's exit from the EU will save the country an annual contribution to the EU budget. London have identified two factors affecting the UK's public sector:

- Positive technical factor: In the contribution of GBP 18.8 billion, the EU refunds GBP 4.4 billion and spends 8.7 billion GBP on services in the UK. Therefore, the UK has to contribute 5.7 billion GBP, equivalent to 0.3% of GDP and 100 million GBP / week. Emmerson *et al.* (2016) ^[10] suggested that UK public finance would improve by about 8 billion GBP / year, thereby increasing funding for spending, reducing taxes and reducing budget deficits. On the other hand, the UK's contribution to the EU budget also serves the trade agreement in the EEA, which is said to be around 4 billion GBP (assuming the amount Norway is paying). Therefore, leaving the EEA could affect the UK's ability to access EU financial services market, thereby affecting the UK economy.
- National income factor: the public financial sector may also be affected through the national income effect. This area can only benefit if Brexit has no negative effects on national income. According to Emmerson *et al.* (2016) ^[10], if the UK economy only drops by 0.6 percentage points, this impact will overwhelm the positive public financial impact of technical factors.

However, the impact of Brexit on trade agreements, immigration policies and thereby on the UK economy is still a big question mark.

4.2.5. Economic growth

Based on possible scenarios, many studies have been done to assess the impact of Brexit on UK economic growth in the long term. The effect on GDP can be through major channels including trade, budget, investment, migration, UK and EU regulations. Economic growth of the Eurozone has slowed down by only 0.2% in the second quarter of 2019 after reaching 0.4% in the previous quarter. European statistics (Eurostat), published on August 14, the number of employed people also increased only 0.2% in both Eurozone countries in particular and the European Union (EU) in general, both decreased compared to the increase in general of 0.4 of the first quarter of 2019. In June, industrial production seasonally adjusted in Eurozone and EU both decreased, at 1.6% and 1.5%, respectively. Compared to June last year, this index in Eurozone and EU also has decreased by 2.6% and 1.9% respectively.

The adjusted gross domestic product (GDP) of the 28 member countries of the European Union (EU) also increased by only 0.2% in the second quarter, down from 0.5% in the first 3 months. Economic experts evaluate these indicators showing that the European economy in general is on the decline. According to a new report published by the United Nations Conference on Trade and Development (UNCTAD), a sudden divorce between London and the EU will significantly affect the conditions for access to the UK market for both developed and developing countries. If hard Brexit occurs, EU exports to the UK could fall by nearly US \$ 34.5 billion.

In the "Brexit no agreement" scenario, that is, there will be no transition period to negotiate bilateral agreements for the future, Turkey is said to be second to the EU in the list of economies losing, with the value of exporting goods to the UK falling by about US \$ 2.4 billion. Next is South Korea, Norway, Iceland, Cambodia and Switzerland.

According to a study published by the IWH Research Institute (Germany), about 612,000 jobs could be threatened in more than 43 countries due to the decline in European goods exports. IWH estimates that UK imports of EU goods could fall by 25%. The study says nearly 179,000 jobs in the EU will be directly affected by the decline in imports and 433,000 indirect jobs will be threatened if including in the EU and other countries. The inevitable consequences of Brexit will also have many negative impacts on the tourism industry. If there is no agreement between the UK and Europe, customs barriers will be restored and Brits who want to go to Europe may need to apply for an international driving license. In general, the ability to change the rules as well as the travel conditions will affect the decision of travelers to the UK.

5. Conclusion and Recommendation

5.1. Conclusion

The UK referendum ended with victory on the side that favored leaving the EU. The new government of Prime Minister Theresa May has also confirmed that the time to launch Brexit is before Q2 2017. This event has a significant impact on the UK economy as well as the global economy.

In the short term, uncertainty about the future of Anglo-EU relations can impact the market through channels: financial markets; Forex market; and asset markets such as government bonds and gold. The obvious fluctuations are the simultaneous decline in major global stock exchanges, the pound devaluated sharply against the USD and other strong currencies, the interest rates of government bonds of some major countries plummeted and the price of gold increased due to increased demand for these assets. However, these effects were temporary and the market quickly stabilized afterwards. In the long term, the UK economy is expected to face more disadvantages due to the impact of immigration and labor, international trade and foreign direct investment. With Vietnam, we believe that Brexit will not have much impact on the economy in the short and long term, when the economic relationship between Vietnam and the UK is not really big in relation to partners. Other like USA, China or Japan.

5.2. Recommendations

To solve the problem caused by Brexit and limit risks to the global economy as well as countries in the region, the following issues need to be done:

- It is necessary to sit down to discuss for a short time to answer UK and EU to find the best way to bring mutual benefits.
- Find security net alternatives to set up customs networks to maintain open goods stores and circulation.
- Prepare an adaptive mentality and a courageous response to changes and negative fluctuations
- Develop a risk management plan and roadmap: identify, control, and deal with bad situations, incidents that can seriously affect growth, recession or even bankruptcy of the business.
- Review business strategies, adjusting business plans appropriately in the new situation.

5.2.1 For Vietnam

- The UK's leaving the EU will make Vietnam's import and export difficult. In addition, the bilateral trade negotiations between the two countries will create new conditions for Vietnam to grasp this. We need to strengthen the negotiation of these agreements wisely and flexibly.
- Import-export and investment, Vietnam needs to find new markets to reduce the decline of import-export and investment activities from the UK to the EU.
- In terms of currency, after Brexit, the value of the pound and the euro are devalued and maybe their position may decline relative to other currencies. In that correlation, the State Bank (The central bank applied the central exchange rate for the overview of VND, which will increase the price, leading to an increase in Vietnam's export prices.
- Before this Brexit event, Vietnam needs to focus on building appropriate adaptive scenarios (especially on exchange rates, foreign exchange reserves ...), so people should calmly wait for results, avoid emotional reactions. calculation and crowd psychology, proactively preventing risks on the double exchange rate between the devaluation of the Euro and appreciation of Yen and USD.

5.2.2. For the World

- First of all, it is expected that when dealing, trading with countries in the European Union will face a situation of higher costs and slower procedures. Fees for using bank cards between the UK and the EU may also increase. Especially online purchases will be more expensive, as goods purchased from the European Union will no longer enjoy low value added tax.
- Second, businesses doing business with the EU will have higher costs due to increased customs duties and more papers. Therefore, the government recommends businesses to renegotiate contracts to accommodate changes in customs procedures and taxes.
- The third is about financial services. The world recommends customers in countries of the European Economic Space that they will not be able to rely on the services of an investment bank located in the UK. To avoid operational turmoil, many UK investment banks have set up branches in the European Union.

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