Trade between UK and World after Brexit Global Action Events: Policy Implications for Vietnam If the Free Trade Agreement with the European Union Is Reality

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Abstract; After more than forty years of joining the European Union (EU Union) since 1973, he has left this link after approving the referendum with nearly 52% of the votes agreeing to leave the EU alliance on June 23, 2016. This result leads to complex economic and political changes in the UK and the world in general, and Vietnam is more or less affected by this change. Under Article 50 of the EU Law, he has 2 years to officially leave the coalition from the date of the official notice. Although the British government has not yet made an official announcement about leaving the EU after the results of the referendum, British political-economic situation has made changes that affect the global economy-politics. Although Vietnam has not suffered much from Brexit in the short term, it is necessary to predict the direct and indirect impacts from Brexit in the long term. Therefore, it is very urgent to understand the impacts of Brexit affecting the world economy and the Vietnamese economy. Because it will help Vietnam predict changes in the political-economic situation and take timely measures to stabilize the macroeconomic situation.

Keywords: brexit, European Union, EU, international economy, Vietnam economy, world trade

I. Introduction

Macroeconomic links have long been considered a key to integration, helping countries in the same region to participate more deeply in international trade. The European Union is considered to be the oldest and most successful international macro link, a model that other regions of the world are aiming at in the process of globalization and regionalization(Begg, 2016). The EU has not only succeeded in economic cooperation, but also the political, cultural and social sectors also have close links between members. However, eventually the British people chose to leave the EU, which could be seen as a step back on international integration as well as globalization(Sathyanarayana & Gargesha, 2016). When nationalism or indigenous flourishing in the face of globalization and international integration through issues of immigration wave, employment, preserving traditional values, social security(Curran, 2018).

This is a concern when it is not only a phenomenon in Britain or Europe, but also in some other places, typically the United States. The president of the United States has pursued a stance against free trade and anti-globalization including Mr. Donald Trump. After he was elected president, this trend could be strengthened(Hozić & True, 2017).

Once globalization and international integration are reversed, even temporarily, the world will be more fragmented, coordination of cooperation policies will be more difficult(Lester & dela Rama, 2018). Therefore, conflicts of interest will arise more. This leads to greater challenges to international economics and politics.

If the UK officially left the EU, the balance of power in the world, though not yet to the extent of forming a new world order, would probably shift more or less. Because anyway, he is still the fifth largest economy in the world and is a politically-cultural-socially influential country (member of the UN Security Council, leader of the Commonwealth)(Dhingra & Sampson, 2016). Without the UK, the size of the EU economy will decline by nearly 3,000 billion USD, but it is still the second largest economy in the world after the US. In terms of politics and security, the EU's role may decline more or less, but for the remaining members, the EU still has an important voice in many global issues(Kahler, 2018). However, this may change if the EU does not resolve its crises ultimately and some other members follow the path to find their way. This will cause strong impacts on the world geopolitical situation.

The impacts of Brexit directly affect the economic and political situation of the UK and EU, thereby affecting the economic-political situation in the world, and Vietnam is not outside this impact(Dhingra & Sampson, 2016). Although the trade relations between Vietnam and the UK are not much, the trade relations between Vietnam and the EU are developing increasingly in a positive direction for Vietnam(Yeo, 2018). Therefore, changes in the European Union also partly affect the Vietnamese economy and market.
The article outlines the general issues of the European Union and the process leading to the British Brexit. At the same time, the author has deeply explored the impacts of Brexit on the world economic and political situation as well as Vietnam's economic situation. Besides, the article also synthesizes and gives comments related to the world and Vietnam's economic situation in the short term as well as in the long term if Brexit is officially approved.

II. Relevant theoretical issues

2.1 European Union EU

The European Union is abbreviated as EU, is a political economic alliance consisting of 28 member countries (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK). The European Union was founded by the Maastricht Treaty on November 1, 1993 based on the European Community (EC). With more than 510 million people, the European Union accounts for about 22% (US $ 16.2 trillion in 2015) nominal GDP and about 17% (US $ 19.2 trillion in 2015) World purchasing power parity (PPP)(Oliver & Williams, 2016).

The European Union has developed a common market through a standard legal system that applies to all member states to ensure the free circulation of people, goods, services and capital. The EU maintains general policies on trade, agriculture, fisheries and local development. However, out of a total of 28 member countries, only 17 countries accept the common currency, the Euro, creating the euro area. The European Union has developed a certain role in foreign policy, with representatives in the World Trade Organization, G8, G-20 major economies and the United Nations. The European Union has approved the abolition of passport checks by the Schengen Agreement between 28 member states and four non-European Union members. Politically, the European Union operates through a mixed national and intergovernmental political system. Important political institutions of the European Union include the European Commission, the European Parliament, the Council of the European Union, the Council of Europe, European Court of Justice and European Central Bank and European Court of Auditing(Mendez-Purra, te Velde, & Winters, 2016).

The European Union has its roots in the European Coal Community with the original six member states in 1951 including Belgium, France, Germany, Italy, Luxembourg and the Netherlands. Since then, the European Union has grown in quantity and quality through strengthening the authority of the European Union.

2.2 Brexit process

Historically, the process of joining the European Union of England has been precarious since the early days of EU formation. In 1957, Britain was not among the six countries that signed the Rome Treaty to form the European Economic Community (ECC). In 1963 and 1967, the British applied to join ECC but both were rejected by then French President Charles de Gaulle, with the reason that France wants to build EEC with the benefits around France-Germany relations, if the UK joins, there will be a high risk of competition with France. On the other hand, the British at that time had an intimate relationship with the US and France, which had a tendency to oppose the US, so if you let him join the EEC, France and the rest of the members feared that the United States would pass the UK and make a big impact on Europe(Billing, McCann, & Ortega-Arigilés, 2019). By 1973, Britain applied for a third EEC membership and was approved by President Edward Heath with the European Act passed in 1972. Although it has officially become a member of the EEC, the internal debate within the UK about the European Community is not over. By 1975, under pressure from the opposition Labor Party, the administration of the Wilson administration held a referendum to decide whether Britain would stay or leave the EEC. The result of this first referendum was that the majority of British voters voted to remain in the EEC but the opposition was still very fierce(Blagden, 2017). In 2012, Prime Minister David Cameron refused to conduct a referendum on the possibility of Britain leaving the EU. However, by June 2016, under pressure from organizations and political parties, Prime Minister Cameron decided to carry out a second referendum in history about UK stay or leave(Dhingra & Sampson, 2016).

Results on June 23, 2016 showed that 51.89% of British people chose to leave the European Union. Once the UK informs the Council of Europe of its decision to leave the EU, the negotiations for leaving the EU will begin and last for two years. The main content of the agreement between the two sides is the future relationship between the UK and the EU, forced to achieve at least 72% of the agreement of the remaining member countries, of the European Parliament and of at least 65% of the EU population. Even so, right after the referendum and so far, the UK has not made an official announcement about leaving the EU(Alkhatib & Harasheh, 2018). However, the results of the referendum also immediately caused direct impacts on the political-economic situation in Britain and the world.

The year 2018 has closed, but the process of leaving the European Union (EU), also known as Brexit, is still unable to "return to destination"; Even though the deadline for negotiations is coming to an end and the
UK has to leave the EU as planned in March 2016. It can be said that last year is a difficult year of Brexit process and when this "divorce" is not over, the UK and EU economies will still face great risks.

III. The impact of Brexit on the world economy

3.1 The impact of Brexit on internal European countries

When UK voters choose to leave the EU, the UK's future relationship with the rest of the EU can be very diverse. According to reports presented to the UK Parliament, there are some proposed solutions such as the UK that continue to be allowed to participate in EU internal markets including the European Economic Area (EEA) as a member of the European Free Trade Association (EFTA) (together with Iceland, Liechtenstein, Norway and Switzerland), or seek to negotiate bilateral terms in the Swiss model with a range of mutual industry agreements (Sampson, Dhingra, Ottaviano, & Van Reenen, 2016). However, Britain did not negotiate a trade agreement before 1973, and the British government is calling on the private sector for help. Once the UK joins the EEA as a member of EFTA, the UK will have to comply with EU internal market laws that cannot participate in the reform process or vote on the content of these laws. However, the EU always conducts extensive consultations with non-EU members before approving laws with many committees and cooperation agencies. Some EU laws originate from different international agencies that non-EU countries like EEA also have their voices (Dhingra & Sampson, 2016). Thus, Brexit will firstly and strongly affect not only the economy but also the political and social issues of the UK and then spread to countries in the European Union, as well as Europe. In addition, a report by Tim Oliver of the International Research Institute and the German security issue also expanded the analysis of Britain's Brexit decision to somewhat make sense to the European Union (Alkhatib & Harasheh, 2018). The report said that the departure of the EU from the EU gave the EU an opportunity to change and agree more. However, it is also possible that EU countries tend to return to protectionism, exacerbating the EU situation at the time.

It can be seen that the impact of Brexit on the UK itself and the countries in the European Union or European countries is likely to happen and there is still much debate. According to a Woodfordfunds study, the benefits and losses for England when choosing Brexit are mainly related to Laws, tax rates, immigration and investment (Mendez-Parra et al., 2016).

Meanwhile, the EU suffered the same damage as the UK mentioned above. However, the EU benefited greatly because of the large capital flow leaving England. Brexit instability also affected the US. According to calculations, the US and Britain will lose about 2 million jobs because the flow of investment into each other is reversed.

### Table 1. Benefits and Damages to Britain from Brexit (Begg, 2016)

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<th>Benefits</th>
<th>Damages</th>
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<tr>
<td>Minimize regulations</td>
<td>Tax when exporting to EU</td>
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<tr>
<td>Save about EU construction contributions</td>
<td>General market loss is large</td>
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<tr>
<td>Private trade negotiations</td>
<td>Destroy the city</td>
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<tr>
<td>Immigration policy prioritizes skilled labor</td>
<td>Reduce investment attraction due to lack of stability</td>
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Besides the predictions of the benefits and losses that both the UK and the EU will face when Brexit takes place, there are also qualitative predictions about the growth of the British economy if decided to choose Brexit.
Some studies show the negative effects of UK leaving the EU. The Center for Economic Activity at the London School of Economics (01-LSE / CEP) estimates that the UK leaves the European Union and joins the European Free Trade Association (EFTA) will reduce gross domestic product (GDP) to at least 2.2% in an optimistic scenario, and between 6.3-9.5% in pessimistic situations (Springmann & Freund, 2018). According to the forecast of the British General Confederation of Industry (02-CBI), it is estimated that the UK’s net benefits as a member of the European Union will decrease by 4-5% of British GDP, or about 62 to 78 billion pounds per year. Institutes of Economic and Social Studies (03-NIESR) estimate that when withdrawing from the European Union, the UK will reduce the economy’s output to approximately 2.25% without other situations occurring. Other studies draw a more mixed picture (Keane, 2018). Open Europe (04) estimates that if Britain embraces conservativeism, it will lead to a decline in GDP by 2.2% by 2030. On the contrary, if it follows an economic opening path, Britain has can do better than the European Union. In that case, Brexit may increase at least 1.6% of national income by 2030. There are also some positive assessments on the economic impact of Brexit. In 2000, the Institute of Directors (05) estimated the cost of the UK as a member of the European Union was 1.75% of GDP. Leaving the EU, the UK will eliminate this cost. Meanwhile, Patrick Minford and Vidya Mahambare [6] determine the cost of maintaining EU membership, the contribution of retirement funds and other funds is equivalent to 3.2-3.7% of GDP. After leaving the EU, the UK can use these contributions for economic growth. Civitas [7] estimates of the current periodic annual direct net costs of the UK contributing to the European Union as members make up about 3-5% of GDP. Tim Congdon from the Independence Party [8], estimated that members of the European Union took the UK for a sum equivalent to 10% of the country’s GDP. These fees are mainly operating costs, accounting for 5.0% of national income - and misallocated resources account for 3.25% of GDP (Storey, 2019).

The impacts of Brexit on the UK and the EU countries according to the above studies are in two polarities. If there is a positive impact on the UK, it may result in a similar fee for the EU and vice versa.

3.2 The impact of Brexit on the world economy

The decision of Britain to leave the EU will have rapid impacts on the world financial market. In the short term, Britain’s departure from the EU will immediately undermine confidence and this will lead to an immediate halt of spending decisions by households and investors. This shock will happen in Britain and move quickly to other economies, mainly in Europe.

The World Bank (WB) said that Brexit’s impasse would confuse finance, making it difficult for many other countries because FDI flows to these countries may be affected, including those in Africa, not just small countries in Europe.

The fact from the public debt crisis and the financial and monetary crisis has shown that financial shocks in one country will spread very rapidly to other economies. At the same time, the decline of confidence also immediately negatively affected the stock market. Stock price fell on most major global stock markets (Sathyarayana & Gargesh, 2016).

WB calculates the impact and predicts that the global economy grows at 2.8% in 2019, and 2.9% in 2020 compared to 3% in 2018. According to the EU, the growth of this region in 2019 is forecast at 1.5% compared to 1.7% in 2018 and 2.4% in 2017.
Figure 2. Global stock market loses post-Brexit points (Sathyanarayana & Gargesha, 2016)

However, the EU noted that this decline was also due to instability in Italy, France and some other factors, not just by Brexit. Thus, the negative impact from Brexit on global growth as well as for the EU, and the UK, is yes but not large (Smith, 2017). Because this is just a change, or a disturbance in the flow of trade and investment in the EU and somewhat globally, not a crisis. Besides, the departure of the EU also immediately caused the pound to depreciate in the context of the currency which was under pressure to reduce prices around the time of the impending referendum.
Another effect could be seen as soon as the UK left the EU, British government bonds would be negatively affected by the instability of the UK economy, leading to increased borrowing costs. Some credit rating agencies believe that this may cause them to reevaluate the status of UK government bonds, and may even have to reduce the credit rating for this type of bond. This is the inevitable consequence of the UK government's borrowing costs will increase.

In the long term, the UK leaving the EU will make the UK economy riskier. This will cause investors to abandon UK government bonds to invest in safer assets such as US or German government bonds, causing their interest rates to fall.

Monetary policy of countries and regions in the world is also affected. The departure of the EU from the EU is one of the most important reasons for FED to delay raising interest rates, and from now until the end of the year, FED may not raise interest rates. Meanwhile, in the European region, concerns about weak economic growth and Eurozone inflation, as well as political risks associated with the UK's departure from the EU, will have to take measures (Borowski, Olipra, & Błaszyński, 2018). Positive monetary easing such as cutting interest rates, increasing members' bond purchases and providing cheap loans to banks.

In addition, the UK's departure from the EU will have a strong impact on world trade. The process of liberalizing world trade will be pushed back because the UK is no longer a part of the EU and is not entitled to free trade regulations within the EU as well as between the EU and the world. Trade barriers between the UK and other European countries will increase as the UK is no longer a member of the EU. Meanwhile, trade between the UK and other countries around the world will also flow more slowly as the UK no longer participates in free trade agreements that the EU has signed with other countries and regions (The Economist Intelligence Unit, 2016). The resumption of negotiations and the signing of trade agreements between the UK and the EU as well as with other countries will take a lot of time. This means that world trade will grow slowly if the UK leaves the EU. The British pound will make British goods cheaper, exports from the UK will be more competitive than in other countries. Therefore, other countries' exports to the UK will be less competitive. In other regions, concerns about the currency appreciating against the pound make export goods less competitive. It is possible to make the central banks of the countries implement loose monetary policy to limit the price increase of the domestic currency (Miller, 2016).

The departure of the EU may not lead to a global financial crisis because of a political crisis rather than a liquidity crisis. Therefore, although the UK left the EU was a shocking decision, it will not cause the same impact as the collapse of Lemon Brothers in 2008. The impact of the referendum in the UK on June 23 last to the world financial market is still under control.

IV. Impact of Brexit on Vietnam's economy

Vietnam's economy depends heavily on exports and FDI inflows. In particular, EU accounted for 18.5% of Vietnam's total exports (Britain accounted for 2.4%), compared with 21% of the US and 18% of China (2017 figures). Thus the EU (including the UK) is Vietnam's second export partner.

In fact, Brexit has been causing some negative impacts on the UK, EU and the world economy. However, these negative impacts are mainly in the EU and the UK, in which the UK is more vulnerable from Brexit than the EU. Therefore, Brexit does not cause a significant decline in global growth as well as for the EU, so it will also have a negative impact on Vietnam's exports to the EU, the UK and the world. However, Brexit
instability will cause the pound to depreciate, making Vietnamese goods become more expensive in the UK market, so Vietnam's exports to the UK may be affected in the long term.

The relationship between Vietnam and the United Kingdom develops in all areas and economic and trade cooperation grows. In 2017, trade between the two countries was 6.1 billion USD, of which Vietnam's exports to the UK reached 5.4 billion USD and imports reached 700 million USD.

Regarding FDI inflows, the total committed FDI from the EU to Vietnam for April 2019 is USD 31 billion, of the total committed FDI to Vietnam is USD 334 billion. Thus, the flow of FDI from the EU and the UK into Vietnam is not large and there is no relationship between Brexit and this capital flow (Loan, 2017).

Vietnam and the UK are strong supporters of free trade in Europe and Asia, actively promoting the early signing of a Free Trade Agreement between the European Union (EU) and Vietnam (EVFTA) in 2018 (Yeo, 2018).

Vietnam and the UK want to maintain a smooth trade relationship when the UK leaves the European Union, including through ensuring continuity of business with the EVFTA transition during the Brexit transition period.

![Figure 4. Vietnam-UK import-export turnover from 2013-2018](Tung, Ahmad, Duong, & Hao, 2017)

The two sides also agreed to continue to consult each other about the possibility of joining the Comprehensive Partnership and Trans-Pacific Partnership (CPTPP).

The second major issue is probably the exchange rate, at least in the short term. If the UK leaves the EU, Brexit may cause the pound to depreciate, leading to instability in the world financial-monetary market. Therefore, the pound depreciates, Vietnam's export goods will be less competitive when entering the UK. Especially for businesses that have a large export volume to the UK or are targeting primarily this market.

At the same time, the British pound is devalued, the British economy is staggered, the British companies investing in Vietnam will have changes. But in fact, these changes also depend on the fact that FDI inflows from the UK flow into Vietnam more or less.

In general, the UK is not too big a partner for Vietnam in the field of trade and investment, so the impact from the UK or in the EU on Vietnam will not be too big.

V. Conclusion

Brexit was decided by the referendum in June 2016 and although the UK government has not yet made an official announcement to go or stay in the EU. This decision has also caused adverse effects on the world economy, especially with the European Union - the largest economy in the world and the UK - the world's fifth-largest economy. Although Vietnam has only a bilateral relationship with the UK and EU at a relatively small level, there is a promising growth in recent years, so Brexit also partly affects Vietnam's economy. Researching the impacts of Brexit on the global economy as well as Vietnam does not only give us an overview of the economic progress in the near future but also give predictions to overcome the negative consequences. extreme or promote the advantages brought by Brexit.
References


