Article

Brexit: The Economic and Political Implications for Asia

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Abstract: Often trumpeted as a bastion of modern economic and political integration, the European Union (EU) has played an integral role in the development of the United Kingdom’s (UK) economy. However, in recent times, the relationship between the EU and the UK has become increasingly fragile, particularly on issues of national sovereignty, immigration, and the general bureaucratic reach of Brussels. Tension surrounding these concerns meant that on 23 June 2016, the British public voted, by way of a referendum, to leave the EU. This decision, often referred to as Brexit, has created a watershed moment in the history of the region, with implications that may have a significant impact on not only Europe, but also Asia and the wider global community. In order to make better sense of the issue, this study provides a brief synopsis of Britain’s decision to leave the EU, before providing a detailed analysis of how the Brexit decision will impact the Asian region. As part of this discussion, a series of relevant policy issues are considered.

Keywords: Brexit; Asia; Britain; European Union; economic policy

JEL Classification: F02; F50; P16

1. Introduction

On 23 June 2016, Britain voted, by way of a referendum, to leave the European Union (EU). After more than 40 years of membership, the British people voted for change and the establishment of a new type of relationship with the EU. This decision bought to a close a partnership that had borne witness to many ups and downs since entry into the common market was first gained in 1973. Following the decision by the people of Britain to leave the EU, the world economy entered a period of uncertainty, with financial markets experiencing some falls, while the biggest impact was the very abrupt depreciation in the value of the British pound and the Euro immediately following the vote. These fears of uncertainty were compounded by signs of a slowing Chinese economy, which had been a key driver of economic growth since the global financial crisis of 2007–2009, and the increased visibility of far-right nationalism within several prominent European countries.

From an Asian perspective, Brexit presents the region with many unique opportunities and challenges. Despite the fact that the level of exports from most Asian nations has decreased in recent times (see Table 1), many leading Asian economies have seen Britain and the EU as being key destinations of direct investment. Given today’s uncertain climate, there is a growing concern that these investments may be at risk. Of particular concern in this regard is China, who has, over the last decade, made deliberate attempts to impress British investors with billions of dollars of potentially lucrative commercial opportunities. Meanwhile, Japan also faces several issues, with some of its
leading manufacturers and financial institutions having a regional operational base in Britain. Despite these potential issues, the Brexit decision also provides a number of interesting opportunities for the Asian region. In this regard, countries like Singapore, Myanmar, and Malaysia can build on their historic ties with the United Kingdom (UK) and establish stronger economic and diplomatic ties. As the trading relationship between these countries is currently very low, there is enormous potential for growth. In order to help realize these opportunities, the UK and its Asian counterparts can negotiate free trade agreements (FTA). In this instance, many of the Asian economies are well placed to take advantage of not only the UK’s lack of negotiation experience but also its weaker negotiating position, as any prospective agreement would be entered without the size and influence of the EU’s domestic marketplace behind it. Nevertheless, as the UK is no longer bound by the same kind of rigid requirements that being an EU member had demanded, the negotiations could in turn lead to more successful, mutually beneficial outcomes.

Table 1. Exports of Asian Countries to the UK and the European Union (Percentage of Total Exports, 1995–2011).

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<tbody>
<tr>
<td>ASEAN(Association of South East Asian Nations)</td>
<td>4.03</td>
<td>20.59</td>
<td>3.90</td>
<td>17.07</td>
<td>3.43</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>0.43</td>
<td>2.18</td>
<td>0.17</td>
<td>2.36</td>
<td>0.05</td>
</tr>
<tr>
<td>Cambodia</td>
<td>2.11</td>
<td>8.88</td>
<td>4.86</td>
<td>18.13</td>
<td>4.34</td>
</tr>
<tr>
<td>China</td>
<td>2.78</td>
<td>17.15</td>
<td>3.50</td>
<td>17.71</td>
<td>3.23</td>
</tr>
<tr>
<td>India</td>
<td>5.66</td>
<td>26.62</td>
<td>6.04</td>
<td>24.67</td>
<td>8.49</td>
</tr>
<tr>
<td>Japan</td>
<td>3.58</td>
<td>17.28</td>
<td>3.31</td>
<td>15.44</td>
<td>2.93</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.39</td>
<td>16.95</td>
<td>3.76</td>
<td>13.33</td>
<td>2.45</td>
</tr>
<tr>
<td>Philippines</td>
<td>2.95</td>
<td>16.48</td>
<td>4.21</td>
<td>11.84</td>
<td>2.31</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.27</td>
<td>15.97</td>
<td>3.10</td>
<td>14.08</td>
<td>4.25</td>
</tr>
<tr>
<td>South Korea</td>
<td>2.10</td>
<td>13.78</td>
<td>3.07</td>
<td>14.31</td>
<td>1.81</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.34</td>
<td>20.18</td>
<td>3.10</td>
<td>16.38</td>
<td>2.89</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2.31</td>
<td>19.07</td>
<td>3.13</td>
<td>20.73</td>
<td>3.06</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>3.08</td>
<td>16.26</td>
<td>3.51</td>
<td>15.50</td>
<td>3.27</td>
</tr>
</tbody>
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Source: OECD (Organization for Economic Co-Operation and Development)-WTO (World Trade Organization) TiVA database; data was collected 31 January 2017.

With so much at stake, the Brexit decision presents not only opportunities for the region but also a range of economic and political challenges that need to be addressed. This study provides a detailed assessment of these considerations from an Asian perspective. As part of this, it also examines some of the most important policy measures that governments in the region may need to implement.

2. The Geopolitical and Economic Consequences of Brexit in Asia

Given the highly integrated nature of the Asian economy and its operations in Europe and Britain, there is much at stake for businesses and governments in the region. Many leaders in Asia are wondering how or the extent to which they may be impacted. While the current situation is still very much a fluid one, there are several situations which may eventuate that should be discussed. In a policy brief by Mordecai et al. (2016), three broad economic and political scenarios were identified that may evolve over the next five years or so; these are (1) limited short-term damage; (2) stagnation and contagion to the EU; and (3) dissolution of the EU.

If negotiations go well with the EU, and the UK can swiftly resolve an exit package, a soft Brexit scenario may be possible in which there is limited short-term damage. However, given the demands of the British government (see Table A1), the likelihood of a soft Brexit scenario is highly unlikely. Nonetheless, if the waters do remain calm, this best-case scenario is certainly plausible (Mordecai et al. 2016). In addition, a soft Brexit would allow the political element to function more coherently as the removal of Britain would allow a powerful European economy, such as Germany, to consolidate their influence within the EU by offering less compromise in the future. As a result of
this shared ideology and the removal of a large conflicting economic power, the EU could operate in a more efficient manner (Mordecai et al. 2016). From an Asian perspective, this smooth transition away from the EU would provide an opportunity for the UK to renegotiate trade deals with countries such as South Korea and Japan\(^1\), as well as the Association of South East Asian Nations (ASEAN) trading block. Moreover, a soft Brexit would also minimize the level of risks that Asian economies and businesses may be exposed to, and mean that any potential downturn may prove inconsequential.

The second possible result of Brexit could be a stagnant negotiation process and a decline in economic performance within both the EU and Britain. Under this scenario, difficult negotiations would result from a lack of agreement around sensitive issues such a reluctance by the UK to accept the freedom of movement of people or labor. Such a situation would result in a hard Brexit, which would see the UK leave not only the political union but also the single market and customs union. In this instance, the UK would have to negotiate new deals not only with the EU but also with countries with which the EU has previously done trade deals (Mordecai et al. 2016).\(^2\) Such an undertaking would be a enormous task, well beyond the current capabilities of the recently established Department of International Trade in the UK. In addition to this, a hard Brexit would also impact the UK economy, with a significant recession being a distinct possibility. This would of course lead to a fall in demand for European goods and services, and as a consequence lead to increases in unemployment and greater pressure on social welfare systems and public services (Mordecai et al. 2016).

Finally, the worst-case scenario would be the breakup of the EU itself. This would not only have a catastrophic political and economic impact on the EU, but the wider ramifications of which could lead to a global economic crisis that would dwarf, in terms of global scope and magnitude, the most recent 2008 financial recession.

**Potential Impact on Asia**

As a consequence of the Brexit decision, there are a range of scenarios that may possibly arise in Asia over the short- to medium-term. In order to make an assessment of the economic and political implications of Brexit, an analysis of the relationships that the key Asian economies enjoy with the EU and the UK is warranted. In order to so, this study analyzes the shares of each economy’s total exports which go to the UK and the EU.

The data in Table 1 shows that the share of Asian countries’ exports destined to the UK is relatively low (2.56% in 2011) and has been gradually falling over the last 20 years. The only exceptions are India (5.49 per cent) and Cambodia (6.53%), with trade between Cambodia more than doubling since 1995. However, in most other instances the level of export share has been falling in recent years, with the share of trade with Malaysia in particular decreasing significantly from 4.39% in 1995 to only 1.26% in 2011. In the eventuality of a soft Brexit taking place, the impact on Asia would be relatively insignificant.

In addition to this, the data also shows that the share of Asian country exports to the EU is higher than that of the UK (with an average of 12.83% shown across the countries listed). However, in most cases the share of trade is less than 10% in 2011, the exceptions being India (25.15%), Cambodia (22.66%), China (18.62%), Vietnam (15.56%), and Singapore (13.09%). In the case of a hard Brexit occurring, whereby the entire EU is affected, the impact on Asian countries would be significantly higher, with India, Cambodia, China, Vietnam, and Singapore being the most affected. In terms of the effects that either a soft or hard Brexit may have on the larger economic powers in Asia (Korea, Japan, and China), a more detailed analysis is required.

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\(^1\) The UK already has a FTA with Korea as a member of the EU, while the EU-Japan FTA is currently under negotiation.

\(^2\) According to European trade statistics, the EU currently has 44 that have come into force with a further 6 agreements that have been finalized but have not yet been applied. Statistics regarding EU trade deals was obtained from the European Commission website (European Commission, 2017).
From a Korean perspective, the level of trade it enjoys with the UK is relatively minor (0.93%) with major institutions, like the International Monetary Fund (IMF), predicting Brexit’s influence on the Korean peninsula to be similar to that of its effect on the global economy, excluding the EU. According to estimations given by the IMF (2016), the global economy is expected to lose about 0.2% of its current GDP outlook for 2017 due to Brexit. As Korea’s exports to the UK and the EU account for only a relatively small proportion when compared to that of China, ASEAN and the US, and when one considers the fact that the Yen’s dramatic appreciation may improve Korean exporters’ price competitiveness, Korea’s overall exports are forecast to remain barely changed despite partial increases in exports to the UK and EU. However, the Brexit decision will have some impact on GDP growth through fewer corporate investments in the short- to medium-term, and sluggish consumer sentiment amid rising uncertainties. What is of more concern is the growing difficulties in political negotiations between the UK and the EU, which may trigger greater unrest in the financial markets which could in turn have an effect on pushing up the value of the Korea Won. Moreover, an exodus of other members from the EU could create serious concerns about the long-term confidence investors have in the Euro, which may see the global economy fall into a swamp of uncertainty similar to the most recent global financial crisis (Kang 2016).

For Japan, the impact of Brexit may have somewhat more severe consequences, despite only 1.92% of its total export share going to the UK. According to credit research agency Teikoku Databank, there are currently 1380 Japanese companies with operations in Britain, with the manufacturing industry accounting for about 40% of these organizations. For some major Japanese manufacturers including Nissan Motor Co., Toyota Motor Corp. and Hitachi Ltd., their production bases for Europe are concentrated in Britain, making the issue of future tariffs a huge concern. As a member of the European Union, products manufactured in Britain received preferential treatment when sold in any other EU country. Now that Britain is leaving the bloc, it will need to negotiate new terms of trade, possibly leading to new tariffs and restrictions. In addition to this, there are also 73 Japanese financial firms with operations in Britain. Under the current EU membership arrangement, there are procedures in place that make it relatively easy for Japanese financial institutions operating in the UK to open offices in Europe, however, following Brexit, the ability for these firms to be granted licenses to operate in the EU is likely to become more difficult. Forecasts on the potential Brexit effect for Japan have been wide-ranging, with 2017 estimates indicating that the long-term negative impact could be as large as 3.4% to 9.5% (JCER 2016).

While in the case of China, there is a distinct possibility that the effects of Brexit will be felt over the short- to medium-term. Although its share of trade with the UK is low at only 2.98% in 2011, China has made significant investments in Britain in recent times. Over the last few years, Beijing has made deliberate attempts to impress London with investments and potentially lucrative commercial opportunities that have amounted to more than $57 billion. In addition to this, many Chinese companies have made the UK one of their favorite destinations of direct investment. In 2015 alone, Chinese companies completed 22 major acquisitions in the UK, the biggest of which included the $9 billion purchase of a 33.5% stake by China’s General Nuclear Power Corporation in Britain’s Hinkley Point nuclear power plant. If the British economy were to deteriorate in the aftermath of a hard Brexit, the value of these Chinese investments would certainly be impaired. Moreover, any damage to London as a leading financial hub would also effect the Chinese government’s plan to use London as the focal point for the internationalization of its currency, the Renminbi. Although a soft Brexit would likely minimize any impact China may feel, a more complicated negotiation and

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3 According to the Korea Economic Research Institute (KERI), as of 2015, Korea’s total exports to the UK and the EU (excluding the UK) accounted for only 1.4% and 7.7% respectively (Kang 2016).
4 Data obtained from the Teikoku Databank website: https://www.tdb.co.jp/.
5 Information sourced from the Japan Times, “Japanese firms in the UK face uncertainty after Brexit vote”. (Kyodo, 2016).
6 Chinese investment information was retrieved from a Fortune Magazine article published 27 June 2016 (Pei, 2016).
further fallout from the EU would obviously cause great concern for the Chinese government and the businesses that have investments in the region.

In the event that the worst-case scenario should occur and the EU itself begins to break up, the effect on Asia, and the rest of the world for that matter, would be significant. While it is too soon to provide exact estimates as to the economic and political fallout that would be generated from such an outcome, a severe global economic depression would certainly be a possibility. This would see growth forecasts throughout the region being slashed and, in the case of China, a country with significant investments throughout Europe, such an outcome could lead to a downturn in its economy that could potentially sink a global recession to even greater depths. Although these apocalyptic style projections are deeply troubling, the likelihood of them occurring is extremely low and thus they should not pose an immediate concern for businesses or policy makers throughout Asia.

Despite these concerns, Britain leaving the EU provides a number of economic and political opportunities for Asia. As a region with rapidly growing populations and an emerging, more affluent middle class, Asia provides many opportunities for British businesses which Asia is well-placed to take advantage of. According to a Rienzo and Vargas-Silva (2017) study on migration to the UK, India is the most common country of birth among the foreign-born British population at 9%, while Pakistan is third at 6% and Bangladesh the eighth at 2%. These people could be used to help build a cultural and economic bridge after Britain has left the EU, and a base from which stronger economic and political ties may be forged. As countries that specialize in outsourcing and IT, as well as textiles and agricultural industries, their economies are complementary, not competitive, to that of Britain’s. As a consequence, these Asian economies are well placed to establish highly effective trading partnerships with the UK. In addition to this, a framework similar to the European Commission’s Horizon 2020 program could be developed to enhance the levels of research and scientific co-operation that exists between the two regions. These developments help to highlight some of the real positive gains that can be made from a two-way exchange in the aftermath of the Brexit decision. In other areas, there are also many opportunities to negotiate trade deals between the UK and the Association of Southeast Asian Nation (ASEAN) states. With its future relations with Europe far from certain, the UK will be keen to develop deeper relationships in the region. In this regard, countries like Singapore, Myanmar, and Malaysia can build on their historic ties with the UK and the groundwork that was laid by David Cameron in recent years. The former prime minister was the first European leader to visit Myanmar after the start of its return to civilian rule, and led a trade mission to ASEAN in 2015. Given that at present the UK does more trade with Belgium, a country of approximately 11 million people, than they do with Indonesia, Malaysia, Vietnam and Singapore combined, then there is enormous potential for growth (KPMG 2016). At the forefront of realizing this economic potential would be the establishment of an ASEAN-UK FTA, the likes of which could serve the Asian region well in a number of ways. Firstly, an independent Britain, free from the restrictions imposed by the EU, could do away with the nontariff barriers and other regulations that Asian exporters currently contend with. In association with this, the negotiation itself may be more free flowing, as the UK would not be constrained by a bloc of 28 members, which must obtain signoffs from each member state in order to ratify any kind of FTA. At the same time, ASEAN states as well as other Asian countries could look to take advantage of the UK’s weaker negotiating position without the size and power of the EU’s internal marketplace behind it. In addition to this, the UK is poorly placed to handle such negotiations as they currently lack the type of experienced negotiators they need to finalize FTAs. Finally, ASEAN states may also find themselves in the relatively unique situation whereby the UK may need them more than they need the UK. According to the UN Comtrade Database, Asia accounted for 16.5% of British exports in 2015, while the UK was not even placed within the top 10 trading partners for any major Asian country. At a political level, and given the developments of Brexit, one could argue that there is greater will to pass

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7 Relevant trade data was obtained from the UN Comtrade database at [https://comtrade.un.org/](https://comtrade.un.org/).
trade deals in the region. Finally, it would be amiss to not state the important political and historic role that Britain has played in the region, nor its status as a power on the world stage. As the world’s fifth largest economy, a member of the UN Security Council and a dominant military player in the region, a stronger political and economic relationship with the UK would be seen as a key developmental milestone for many parts of the Asian region. Meanwhile, for Britain, a stronger presence in the Asia would send a clear signal that it was re-emerging as a true independent player on the world stage again. In order to help ensure the development of mutually beneficial political and economic ties, the Brexit decision requires the introduction of a range of new policy measures and a re-evaluation by many governments in the region of Asia as to the feasibility of their current initiatives.

3. The Policy Implications of Brexit

As things currently stand, the outcome of negotiations between the EU and the UK is still very much in the balance. Nonetheless, popular opinion suggests that the most likely scenario is a hard Brexit, in which the entire EU could experience an extended economic slowdown if not an economic recession. As a consequence of this, demand for Asian exports will fall, resulting in a need by Asian policy makers to rebalance their thinking and find regional and domestic sources to make up for this shortfall in demand. In order to do this, a range of policy initiatives could be implemented. At the regional level, governments could look to continue to negotiate and sign bilateral FTAs with neighboring countries. With the Trans Pacific Partnership deal effectively over, under the new US Trump Administration, there is a real need to expedite the on-going negotiations on the Regional Comprehensive Economic Partnership (RCEP), which is an FTA among the ASEAN countries and its six dialogue partners. At the domestic level, Asian countries should seek to promote local consumer demand. However, such developments would not be easy, as they require the establishment of social safety nets and the provision of healthcare and education benefits to consumers. On the supply side, fiscal measures, such as tax incentives or infrastructural development programs, could be implemented to encourage both foreign direct investment and reinvestment from existing local businesses (Mordecai et al. 2016). A hard Brexit may also see capital investments removed from Asian countries as the UK and other EU members grapple to meet the needs of their own domestic investors. In an attempt to overcome these areas of financial instability, Asian countries should therefore strengthen their ASEAN+3 Financial Safety Net which comprises the Chiang Mai Initiative Multilateralization (CMIM), a $240 billion crisis fund, and the ASEAN+3 Macroeconomic Research Office (AMRO), the CMIM’s surveillance unit (Mordecai et al. 2016). In addition to this, ASEAN members also need to address the development gaps that exist among its respective countries. A key example of this, are its efforts to translate the benefits of economic integration into the closure of development gaps, both within the region and within countries through the Initiative for ASEAN Integration. Important policy measures surrounding this objective include greater market access for goods and services and a more harmonized set of rules, regulations, and standards within the South East Asian region (ASEAN 2016).

For the likes of Singapore, the Brexit decision presents a number of opportunities. As Commonwealth partners, the two countries share a strong historical relationship and a common set of principles moving forward. During the past two decades, Singapore has emerged a leader in trade liberalization in the Asian region, with some 20 FTAs already in force in addition to the negotiations that are currently going on with the EU. From a policy perspective, the EU deal is particularly useful for the Singapore government as it could be used as the basis for any future UK trade negotiations. Such a situation would also prove beneficial for Britain as it seeks to improve its own negotiation capabilities and establish a framework by which future trade deals can be conducted. The opportunity to fast-track a potential FTA would also overcome the obvious pitfalls of starting talks from scratch, which might take many years before any agreement is reached. In order to deliver better market access sooner, Singapore and the UK could look to sign a Trade and Investment Framework Agreement (TIFA) (KPMG 2016). Such an agreement would provide a strategic framework from which trade and
investment issues may be discussed. Specific areas of discussion are market access issues, labor, the environment, protection and enforcement of intellectual property rights, and, in appropriate cases, capacity building. In addition to this, the Singapore government could also look to implement policy that attempts to enhance foreign direct investment ties between the two countries. This could be achieved through the signing of a Bilateral Investment Treaty (BIT) program. The fundamental premise of such an initiative would be to protect the foreign investments each country makes in instances where investor rights are not already protected through existing agreements (such as modern treaties of friendship, commerce, and navigation, or free trade agreements) (KPMG 2016). They can also be used to not only encourage the adoption of market-oriented domestic policies that treat private investment in an open, transparent, and non-discriminatory way, but also to support the development of international regulatory provisions that are consistent with these objectives. The US in particular has used TIFAs to great effect in the past, with many agreements being struck with countries of different levels of economic development and trade and investment interests.

In other larger East Asian economies, the Brexit decision has created a great deal of uncertainty in recent times. However, while there is cause for concern, there are also significant opportunities. In the aftermath, many governments have leapt at the chance to negotiate trade deals with both Britain and the EU. In this regard, South Korea responded smartly to Britain’s vote to leave the European Union, with its top diplomat Yun Byung-se stating that a bilateral FTA with Britain was a high priority for the Park Administration. As a leader in international trade diplomacy in the Asian region, South Korea has set the benchmark for trade negotiations, having already signed agreements with the EU, the US, and China. The Brexit decision provides yet another opportunity for the Korean government to refine its negotiation skills and implement new policy initiatives that benefit its export-orientated economy. Moreover, it gives South Korea an even greater advantage over its regional rivals and fellow high-tech exporters Japan and Taiwan, which do not enjoy preferential links with most of their main trade partners. In the post-Brexit era, Korea-EU and Korea-UK economic and commercial relations will be heavily dependent upon various factors including the direction of revision of the Korea-EU FTA, EU-UK relations after Brexit, the contents of the Brexit agreement, and economic conditions in the UK and the EU after Brexit. A key aspect in this regard is the need to create an interim clause that would see an extension of the preferential factors that exist in the current Korea-EU FTA being applied to a potential Korea-UK FTA, in what would be a revised Korea-EU FTA. In association with this consideration, is a series of other policy initiatives that Korea can look to implement as a means of minimizing the negative impact that an institutional vacuum in the economic relations could create between the UK and Korea. Firstly, as Brexit represents a growing neo-protectionist trend in major developed countries, it is important that the Korean government, and other leaders within the Asian region for that matter, engage with the general public about the benefits of adopting trade liberalization policies. In order to do so, closer cooperation and a more effective means of communication between governments, the business sector and related industry associations is required. By achieving a greater degree of strategic alignment, governments in the region would be better placed to handle the economic and political impacts of Brexit.

The Brexit decision has also seen the Japanese government reevaluate its domestic policy initiatives. The aftermath of Brexit has seen the Japanese Yen soar, impacting its efforts to revitalize its lagging economy. Those gains now pose a major challenge to the Abenomics program, led by the Japanese Prime Minister Shinzō Abe and Bank of Japan Governor Haruhiko Kuroda, that has aimed to encourage higher growth and inflation through a combination of expansionary monetary policies, new public works spending, and structural reforms that are intended to fix inefficiencies in the Japanese economy. The Brexit decision may mean that the Bank of Japan’s policies have reached their limits.

Specific details regarding the use of TIFAs by the US government was disclosed on the US Trade Representatives website (USTR 2017).
and can do little more to reverse the Yen’s rise in the face of a global flight to safety, meaning that the Japanese government may have taken steps to again intervene in its currency markets. A strengthening Yen will have an impact on the domestic economy in many ways, with Japanese exports increasing in value, making them potentially less attractive in what is already a highly competitive regional marketplace. In addition to this, domestic prices could fall in the wake of cheaper imports, which may see earnings forecasts decrease and the demand-supply balance of the labor market worsen as many companies may look to let some staff go during tougher economic conditions. From a business perspective, with many Japanese automotive manufacturers having regional headquarters based in the UK, the Brexit decision may lead to significant tariff hikes which may have serious implications on the 140,000 people\(^\text{9}\) that are employed by Japanese businesses in Britain. Any deterioration in the trading relationship between the UK and the EU could mean that these businesses are relocated to Europe. In order to help overcome any potential upheaval, the Japanese government’s Foreign Ministry has been very active in its discussions with the UK. In an open letter, the ministry detailed a coherent list of the demands that would aid Japanese businesses, including the maintenance of goods with no burdens or customs duties; unfettered investment opportunities; maintenance of an environment in which financial transactions can be carried out smoothly; continued access to labor markets; and harmonized regulations and standards between the UK and the EU.\(^\text{10}\) With a great deal at stake for both Japan and its respective European trading partners, it is imperative that any negotiation outcomes achieved in the aftermath of Brexit act in the best interests of all parties.

China, the world’s second largest economy, is also presented with a number of significant opportunities. In this instance, China’s potential economic losses could be offset by some political gains from Brexit. Ideologically, Brexit presents China’s propagandists with the ammunition they need to portray the event as a striking example of the dysfunction and inadequacies of democracy. Geopolitically, China could also benefit significantly from the aftershocks of Brexit. Until about a decade ago, the story of European integration was viewed positively by Chinese policy makers. In their eyes, a strong Europe acted as an important counter-measure to the hegemonic power of America. However, in recent times, Chinese leaders have had to reevaluate their stance on Europe. As the world’s second largest economy, China has come to view the EU as a potential threat and a tool that the US can use to gang up on Beijing, much in the same way they employed the Soviet Union. Given this change, China’s modern European strategy has been based around developing relationships with individual European countries in a manner that often sees them competing against each other. This new form of divide and conquer tactic has so far proved very successful, with the EU unable to launch any kind of unified plan in response. As such, almost every European country established its own China policy, which sees any kinds of human rights and security concerns replaced by a strong desire to strengthen commercial ties. In addition, China’s establishment of the Asian Infrastructure Investment Bank in 2015 was met with almost unanimous support by European countries, including the UK, all of which occurred against the wishes of the US, who feared the impact that a greater Chinese influence might have on Europe. The instabilities created by Brexit may see the EU economy weaken and as such reduce its value as a strategic partner of the US in a move that will only enhance China’s position in the region.

Finally, given the opportunities that Brexit provides to many Asian economies, it is important that governments also take the time to reassess the impact that greater trade liberalization with the UK may have on their own domestic markets. In this instance, those economies with the financial capabilities to do so may look to implement domestic policies that help protect more vulnerable industries. Here, a Trade Adjustment Assistance (TAA) program could be offered as a compensation mechanism for

\(9\) Statistics obtained from a BBC article “Brexit: Japan warns firms may move European HQ out of Britain” published 5 September 2016 (BBC 2016).

\(10\) The Japan Foreign Ministry’s statement titled “Japan’s Message to the United Kingdom and the European Union” was obtained from the Ministry of Foreign Affairs (MOFA) website (MOFA 2016).
those groups that have been affected or are expected to be adversely affected by trade liberalization policies in general (Heo 2013). Korea currently offers a TAA package, however, with too much of an emphasis placed on providing financial assistance and not enough weight given to upskilling vulnerable firms, the program has proven costly, highly inefficient, and has only had a minor effect on helping to structurally reform uncompetitive firms to raise their business performance (Pyo et al. 2016). Much can be learned from the US TAA model, which has proved to be a reasonably successful means of aiding both firms and staff that are at risk since it was first introduced in 1962. At the heart of its success has been its stronger focus on the issues of consultation, training, and educational opportunities while the financial assistance packages offered to the workers and companies have been relatively minor. The Korean government and other leaders in the Asian region would greatly enhance their trade liberalization objectives should a similar policy framework be developed.

4. Conclusions

Often considered to be the poster child of modern economic and political integration, the EU has played an integral role in the development of the UK, particularly in the latter part of the 20th century. However, in recent years, growing tensions over issues of national sovereignty, immigration, and the general bureaucratic reach of Brussels saw this partnership falter. In a vote that surprised many, the Brexit decision has sought to alter the economic and geopolitical dynamics of Europe as well as the wider global community. While its potential impact is yet to be fully realized, there has already been enough evidence to suggest that the road ahead will be a rocky one. As Britain looks to re-establish itself as a global center of trade, many countries in Asia have begun to assess the types of opportunities that may lie in store for them.

As this study has documented, there are three potential scenarios that may evolve over the next five years or so, as the UK and EU look to renegotiate their relationship; these are (1) limited short-term damage (soft Brexit); (2) stagnation and contagion to the EU (hard Brexit); and (3) the complete dissolution of the EU (Mordecai et al. 2016). While a soft Brexit would obviously provide the safest, less volatile impact on Asia, a hard Brexit could also be of potential benefit to some countries, particularly China. A weaker Europe may provide China with the opportunity to extend not only its influence in the region but also its standing as a true global hegemonic power, something the US is at great pains to deny. Nonetheless, there is too much at stake for both the EU and the UK for any kind of major breakdown in their relationship to occur. While things may not be easy during the negotiation process, there is a need to keep things in perspective and understand that there are far more things that unite the region than divide it. During a time of great uncertainty, it is paramount that leaders on both sides realize the economic and geopolitical significance of what is at stake, so that a deal can be brokered that not only benefits the UK and the EU but also the wider global community.

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Appendix A

Table A1. The 12 Key Objectives behind a New Successful UK-EU Relationship.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Description</th>
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<tbody>
<tr>
<td>1. Clarity</td>
<td>In order to achieve mutually beneficial outcomes from the UK-EU negotiation, certainty must be given to both the business and public sectors. This will be achieved by ensuring that the body of existing EU law will be converted into British law.</td>
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<td>2. Control of our own laws</td>
<td>Making sure that Britain takes back control of laws that are currently under the jurisdiction of the European Court of Justice. Laws will be made in Westminster and interpreted by judges in the UK and not Luxembourg.</td>
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<td>3. Strengthen the union</td>
<td>As the UK moves to leave the EU, the government has established a Joint Ministerial Committee on EU Negotiations, so that officials from each of Britain’s administrations can make contribution as to the way in which it will leave the EU.</td>
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<td>4. Maintain common travel area with Ireland</td>
<td>Efforts will be made to continue a common travel area between the UK and the Republic of Ireland while also protecting the integrity of the UK’s immigration system.</td>
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<td>5. Control of immigration</td>
<td>While continuing to attract highly skilled immigrants, the system will be realigned to that it serves the national interest. A key part of this will be controlling the number of people coming to Britain from the EU. The current volume of immigration has put pressure on public services, stretched housing infrastructure and placed downward pressure on wages. The decision made in the referendum reflects the voters’ strong desire to rectify these issues.</td>
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<td>6. Rights for EU nationals in Britain, and British nationals in the EU</td>
<td>This reflects a strong desire to ensure the rights of EU citizens living in the UK and British nationals living in the EU. The government wants this particular issue to be resolved as soon as possible.</td>
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<tr>
<td>7. Protect workers’ rights</td>
<td>As the body of European law is translated into domestic regulations, it is the aim of the UK government to ensure that all workers’ rights are protected.</td>
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<td>8. Free trade with European markets</td>
<td>A key priority for Britain will be the establishment of a Free Trade Agreement with the EU. Such an agreement, while attempting to be comprehensive in nature, will also reflect the views of EU leaders. In this case, any agreement may take in elements of the current single market arrangement in areas such as the export of cars or the freedom to provide financial services. A key part of the negotiation will also include the fact that, because the UK will no longer be a member of the single market, it will not be required to make vast contributions to the EU budget each year.</td>
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<td>9. New trade agreements with other countries</td>
<td>As an outward-looking global player, the UK will seek to strike deals with countries outside of Europe. In order to achieve this, a Department of International Trade has been established to pursue possible trade deals with countries such as China, Brazil, the Gulf States, Australia, New Zealand and India. Meanwhile, recent discussions with President Trump indicate that a trade deal with the US is certainly achievable.</td>
</tr>
<tr>
<td>10. The best place for science and innovation</td>
<td>In an attempt to push forward as a global player, the UK must look to the future. As part of this, Britain must invest in innovation and build on its long legacy as a leader in academic and scientific research.</td>
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<tr>
<td>11. Cooperation in the fight against crime and terrorism</td>
<td>A global Britain will continue to support its European partners in their fight against crime and terrorism. Given the changing dynamics of the threats we face in the region and abroad, it is imperative that any future arrangement with the EU continues to include practical arrangements on matters of law enforcement and intelligence sharing.</td>
</tr>
<tr>
<td>12. A smooth, orderly Brexit</td>
<td>In order to achieve a stable, healthy relationship, the Brexit process must be done in a highly transparent manner. The framework identified in these objectives will help to avoid a disruptive cliff-edge situation that would be detrimental to both parties. The goal is to reach a new partnership by the time the two-year Article 50 process has been concluded.</td>
</tr>
</tbody>
</table>

Source: (UK Government 2017).

References


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