

The Influence of “Brexit” on Sino-British Bilateral Trade

Dejun Yu and Feilin Luo

Associate professor, Yunnan University of Business Management

Lecture, Yunnan University of Business Management

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Abstract. This paper first gives an overview of “Britain exiting from the EU” and current situation of Sino-British bilateral trade, then discusses the impact of “Brexit” on Sino-British bilateral trade and puts forward some specific countermeasures.

Overview of “Brexit” and Current Situation of Sino-British Bilateral Trade

The decision of Brexit originates from 'in-out' referendum held on June 23th, 2016; this referendum decided that UK will exit from the European Union.

Overview of “Brexit”. On January 23th, 2013, British Prime Minister David Cameron for the first time declared to the world that Britain would call a referendum on Britain’s membership of European Union. On January 4th, 2015, Cameron said UK may exit EU in 2017 referendum. Later on May 29th, Cameron Government announced that he has submitted a bill about holding an “exiting from European referendum” and promised to organize the referendum before the end of 2017. On June 23th, 2016, a referendum was held successfully, 15.7 million British people voted to exit, accounting for 51.9%; 14.58 million people voted to stay in Europe, accounting for 48.1%, which means the UK henceforth officially exit from the EU.

Current Situation of Sino-British Bilateral Trade. Sino-British trade began in the 1950's, but it didn't step into a rapid growth phase until the nineties and since then, the share of Sino-British bilateral trade is constantly rising in the total trade of UK. According to Chinese official statistics, in 2012, the Sino-British trade volume reached \$ 63.1 billion, an year on year increase of 7.5%, the partnership develops fastest among China's major trading partners in Europe, and the same year the trade relationship between China and the European Union, Germany, France and Italy experienced a negative growth.

From the current situation, both breadth and depth of the Sino-British trade cooperation can match with their role and status in global economy. The Sino-British bilateral trade between China and Britain, respectively, only accounts for relatively small proportion in their total trade, in terms of economies of scale and investment growth of the two countries, Sino-British trade still has a large room for development. At the same time, in recent years China trade deficit continued to expand in the UK, the British showed a strong attitude towards anti-dumping, which to some extent restricts the development of Sino-British trade. With British exiting from the EU, Sino-British trade will be affected by the impact of British sterling devaluation and British changing status and role in EU, what happens next is still full of variables.

Influence of “Brexit” on Sino-British Bilateral Trade

Domestic factors played a decisive role on China's long-term sustainable economy growth. However, in the short term, sterling devaluation effects brought by “Brexit” may exert a certain impact on Chinese financial market, Sino-British trade and even China's economic development.

The Direct Impact of Sterling Depreciation on RMB Exchange Rate and Internationalization. The British pound and the euro are likely to have different degrees of devaluation after Brexit, in turn the RMB and other major currencies which have a greater international influence will have a corresponding appreciation such as dollar and yen, leading the exchange rate of RMB against US dollar and Japanese yen is depreciated, the exchange rate of yuan in the international monetary market should be further investigated.

The British Government has been committed to promote the internationalization of the RMB, such as the British had a high-profile support for inclusion of the RMB into International Monetary Fund (IMF) Special Drawing Rights (SDR) currency basket. May 2016, London became the first overseas offshore RMB International Trade Center, Chinese Ministry of Finance issued 30 billion offshore bonds, and this is the first issue of Chinese bonds in the offshore currency markets outside Hong Kong. However, after Brexit, China will lose a strong support for promoting the process of internationalization of RMB in Europe, while London will also lose the unique advantages of providing RMB business. The trade facilitation RMB bonds used to enjoy in continental European banks will no longer exist, European banks may set limits in all aspects of its business, such as the transfer of funds and talent recruitment, therefore it is possible for China to select other European city to act as a trading center of Renminbi business. Although Brexit to some extent shaken the status of London as a world financial center, but this more independent pound and London's status as a world financial center will promote the international monetary system reform, which may create a favorable environment for our country to open up the road of internationalization of RMB.

Sino-British Trade Plays Fewer Roles in Sino-Europe Trade. Data provided by Chinese Customs show that China's imports from the United Kingdom in 2015 amounted to 370 billion yuan, and the annual increase reached 5.5 percent, the UK is the China's major trading partner and the only one gained trade growth in the EU. In October 2015, President Xi Jinping visit to the United Kingdom it is important to pay attention to the performance of China-UK relations, after the Sino-British cooperation in many fields have been strengthened. Earlier, the booming bilateral trade relations between China and Britain is formed in the context of Britain as one of the EU member states, but since Brexit, the EU may continue to suppress the British economic and trade space in Europe. Britain has long been regarded as China's entry into the European continent, but with this most intimate partners exiting EU, China's future relationship with EU is unknown. After Brexit, many Chinese companies whose headquarters or branches set up in the UK may be able to enjoy the EU's preferential policies, but it won't be clear until Britain and EU finished new negotiations.

Exerts a Boost Effect on the Long-Term Development of Sino-British Free Trade. According to the statistics of HM Revenue and Customs [1], in 2015, the Sino-British trade volume amounted to \$ 91.03 billion, compared to last year grew 0.3 percent, China is the UK's fourth largest export market and second largest source of imports. The major products British exports to China include precious metals and their processed products, transportation products, electronic products, machinery and chemical industrial products; major imports from China are machinery and electronic products, household products, toys, textile products and raw materials. Sino-British trade has a certain complementarity [2], and the UK has been a staunch supporter of free trade philosophy. Britain has been committed to promoting free trade cooperation between China and Europe. As British used to be part of EU and got restraints from EU, now Brexit may grants a new opportunity to open the negotiation process in Sino-British bilateral free trade agreements.

Countermeasures to Boost Sino-British Bilateral Trade after “Brexit”

With the British exiting from the EU, China should take advantage of this opportunity to strengthen the Sino-British bilateral trade, deepen cooperation with the United Kingdom in various fields, to further implement the Sino-British cooperation intention reached in the past, and develop the relations between Britain and China into a comprehensive strategic partnership.

(1) Have a clear understanding of the British referendum trends and its implications in international community. First, fully use our embassies to collect various countries' reaction and response to “Brexit” and form a comprehensive research report. Second, further deepen exchanges and high-level visits between China and Britain. Third, to ensure the implementation and enforcement of the cooperation agreements already reached between Britain and China, effectively promote the further development of bilateral trade between China and Britain.

(2) Prevent the shocks on exchange rate bring by sterling devaluation. First, protect offshore Renminbi against the financial market turmoil generated by Brexit, and ensure the offshore Renminbi transactions in London trading center can be carried out smoothly. Second, ensure a

smooth exchange rate between the British pound and Chinese yuan, making sure the exchange rate changes will not affect Chinese investments and trade in Britain, try to minimize the impact of Brexit on our company in the British. Third, pay attention to the adverse effects of the pound and euro depreciation on our reserves, timely reducing these currency reserves in order to reduce losses and ensure the safety of foreign exchange funds.

(3) Enforce the implementation of major cooperation projects between China and Britain. First, by focusing on high-speed rail, nuclear power and other infrastructure projects to promote and deepen the Sino-British investment cooperation, to solve out the major difficulties met in the process of implementation and enforcement of the Sino-British cooperation projects, promote the implementation of the Sino-British iconic projects. Second, develop new areas of Sino-British trade cooperation, further promote bilateral cooperation in many fields including medicine and health, urban planning and construction, water resources utilization and management, cultural innovation and creative industries.

(4) Establish a long-term trade cooperation mechanism between China and Britain. First, promote cooperation between China and Britain from strategic level. China can provide British with effective and timely policy information, good investment and trade environment to help it participate in many national development strategies including “One belt, one road”, “Thirteen Five” plan, the emerging “Internet +” concept, “Made in China 2025” etc. Second, establish a Sino-British cooperation mechanism on equipment manufacturing to jointly develop the third-party market. Third, build a Sino-British trade cooperation platform for SMEs. Fourth, promote the establishment of the Sino-British “innovation partnerships”.

(5) Make preparations for establishing a Sino-British free trade area. The will of Britain and Chinese government to establish a free trade zone has become stronger since Brexit, and in the long run, the establishment of free trade zone is a key safeguard to the sustainable and comprehensive development of Sino-British trade. Explore the establishment of Sino-British free trade zone and bilateral investment agreement is also an import initiative both for the United Kingdom to deal with the negative trade effects from EU Member States after Brexit and for China to respond to the US and Europe Transatlantic Trade and Investment Partnership Agreement (TTIP) negotiations.

Conclusion

According to Lisbon Agreement 2009, that even British now exits from the EU, it still need about two years to completely exit, the Brexit would not cause great impact on Sino-British trade in the short term. Thus, there will be a buffer for Sino-British trade to adapt to “Brexit” situation. China and Britain should focus on the long-term bilateral trade development. From the Chinese side, China can keep track on new changes since British exiting from the EU in order to predict in what manner the United Kingdom will maintain its relations with the EU, figure out the Sino-British bilateral trade position and explore new ways for Sino-British cooperation, so as to promote the Sino-British bilateral trade to a new level.

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