On June 23, 2016, the United Kingdom European Union membership referendum (Brexit referendum) voters sent the United Kingdom (UK) on a complicated and unpredictable road to leave the European Union (EU). The leave and remain votes came to a final 51.9% and 48.1%, respectively, with a 72.2% turnout rate of registered voters.

Before the official vote, polls and betting firms have persistently predicted a marginal win for the UK to remain in the EU. Academics and investment professionals, as well as the UK Conservative Party (the ruling party at the time of the referendum) and the world financial markets failed to anticipate this outcome. Even Brexit high profile advocates such as Boris Johnson, London’s former mayor, and Nigel Farage, UK Independence Party (UKIP) former leader seemed unprepared after the “the victory for the ordinary people”, as they have shown no post-Brexit plan.

European Union

“The European Union (EU) is a politico-economic union of 28 member states that are located primarily in Europe. The EU has developed an internal single market through a standardized system of laws that apply in all member states. EU policies aim to ensure the free movement of people, goods, services, and capital within the internal market, enact legislation in justice and home affairs, and maintain common policies on trade, agriculture, fisheries, and regional development”. The EU has
The largest economy in terms of GDP is the UK, which is also a major financial hub and a key player in global trade. As of 2015, the EU is the largest economy accounting for 25% of the global GDP and has the biggest international trade share on goods and services (not counting intra-EU trades). The export share of the EU is 15% of the world exports and the import share is 14% of the world imports. The dollar size of the intra-EU trade is about the same as that of its trade to outside regions. Thus, a stable and prosperous EU is in the interest of the world economy.

**UK as a Single Market Member**

As an EU member, the UK is automatically a member of the single market. This means that capital, people, goods, and services can freely move within the single market, where most trade barriers are removed. With the UK's relatively strong economy and London as the world's top financial center, it is not surprising to see capital and people flow in from the rest of the EU. In addition, corporations from non-EU countries often use the UK as the first stop in accessing the EU market.

**Foreign Direct Investment (FDI):** The UK is the most preferred FDI destination over any other EU countries regardless of the financial value of FDI inflows, the value of cumulative inflows, or the number of FDI projects with an estimated stock of over £1 trillion in 2015. This is partly attributed to the UK's stable economic growth rate and access to the EU single market. From 2001 to 2011, the average growth rate of inward FDI to the UK is about 4.3%, which is over 30% higher than that to Spain. The country with the second highest inward FDI growth rate. Note that nearly half of all FDIs in the service sector of Britain is in banking industry. The EU is the major investor and recipient of UK investments: in 2013, 43.2% of the UK's overseas assets were held in the EU, whereas 46.4% of the assets held in the UK by overseas residents and businesses were attributable to the EU. These numbers are consistent with the argument by Professor John Van Reenen from LSE. Reenen et al. (2014) argue that leaving the EU can decrease the UK's inward FDI by 25%. Based on the data of 34 OECD countries over the last 30 years, they also find evidence that joining EU increased FDI inflow by 28%, although no statistically significant effect on FDI is observed from being a member of the European Free Trade Association (EFTA), similar to Switzerland.

Furthermore, the UK matters to the EU as well. The UK is also the undisputable leader in Europe when measured by the value of FDI projects. According to the FDI Report (2015), the UK attracted $35 billion of capital investment or about 28% of the total capital investment flows into Europe. Thus, it is bilaterally beneficial to eliminate the uncertainty between UK and EU.
Trade: The UK has a strong link with EU in both FDI and trade. The trade between the UK and the rest of the EU accounts for a large percentage of its international trade. For example, in 2015, UK’s share of exports to EU28 was 44.4% of its total exports; however, this share has been declining, which indicates that the trade with the non-EU countries is becoming increasingly important; furthermore, the share of imports into the UK from EU28 was 53%, which has remained unchanged in the past 16 years. According to Office of National Statistics, about 17% of the exports from other EU countries went to the UK in 2014, and these exports were worth about 3%-4% of the values of the economies of such countries taken as a whole.

Single market membership removes tariff and non-tariff barriers for UK corporations when dealing with other single market members. However, the future tariff depends on the type of new agreement made between the UK and the EU after Brexit.

UK as an EU Customs Union member

As an EU member, the UK is also a member of the EU Customs Union. As a Customs Union member, the UK enjoys the trade deals between EU and non-EU trading partners. Given that the EU has the biggest share of international trade, it enjoys great bargaining powers in trade deals, which helps its members to gain more opportunities outside the EU. Apart from existing trade agreements, numerous negotiations are up and coming. For example, the EU and Canada have already finished trade negotiations and entered into the Comprehensive Economic and Trade Agreement (CETA), which “will remove customs duties, end restrictions on access to public contracts, open-up the services market, offer predictable conditions for investors, and help prevent illegal copying of EU innovations and traditional products”. Furthermore, USA is actively negotiating the Transatlantic Trade and Investment Partnership (TTIP) with the EU. A strong and unified EU will push other markets to open up further and to reduce non- tariff barriers.

A drawback to the Customs Union membership is the loss of independence in setting trade policies by individual member state. This may at times create conflicts of interest. For example, the UK has been the main advocate within the EU to recognize China’s market economy status, whereas the EU has been more reluctant.

WTO Membership

Both the EU and the UK are WTO members, along with 161 other members worldwide. As a WTO member, the UK enjoys the most favored nation (MFN) status when trading with other WTO members including the EU. The MFN status means that WTO members obtain the best trade terms from their WTO trading partners, although WTO allows free trade
最優惠的貿易條件，盡管世貿仍容許自由貿易地區和關稅同盟訂立比世貿更優惠的貿易條件和更低的貿易障礙。因此，歐盟成員國可制訂比
較為世貿成員國更低的貿易限制，以進一步降低貿易障礙，成員國可再商議並訂立更多自由貿易協議。例如，2016年2月4日，太平洋
一帶的12個國家簽署了《跨太平洋夥伴協定》（TPP），希望長期能夠將關稅降至零。

表一和表二分別展示了英國的十大出口和進口貿易夥伴。表一可見英國的十大出口貿易夥伴當中，除中國、美國、瑞士外有七個是歐盟成
員國。美國和中國分別排名第一和第六，佔
英國商品出口的3.6%。表二展示了相同的情況。英國、中國、瑞士分別排名第二、第三、
第六，是十大出口夥伴中僅有的三個非歐盟
成員國，兩表顯示英國與歐盟、英國及中國的
關係，將決定英國的命運。

中英關係

中國經濟已經以每年增長率約10%的
速度發展超過三十年，並且在2012年躍升為
僅次於美國的全球第二大經濟體。雖然歐盟
現在仍然是最大的經濟體，但不能與獨立
國家相提並論。截至2015年，中國的國內
生產總值佔全球的15%；而英國則是第二大
經濟體，佔全球GDP生產總值4%，每年增長

region and customs union to set even better trade terms and lower trade
barriers. As a result, EU membership can lower trade barriers further than
WTO membership alone. To reduce trade barriers further, more free trade
agreements are negotiated and signed. For example, on Feb 4, 2016, 12
countries around the Pacific Ocean signed the Trans-Pacific Partnership (TPP)
with the hopes to eventually reduce tariffs to zero.

Table 1 and 2 show UK’s top 10 partners in exports and imports
respectively. Table 1 demonstrates that among the top 10 export
partners, 7 are EU members except for China, the US and Switzerland. The
US ranked first and China sixth in taking 3.6% of UK’s goods and services.
Table 2 displays the same pattern, whereas the US ranked second, China
ranked third and Switzerland ranked sixth as the only three top 10 non-EU
import partners. The two tables indicate that the arrangements between
the UK and the EU, the US and China determine the fate of the UK.

Relationships with China

The Chinese economy has grown with an annual growth rate of
around 10% for more than 30 years, and China became the second
largest economy in 2012 after the US. The EU is still the biggest economy,
but it is not ranked here among individual countries. As of 2015, China
contributed approximately 15% of the world’s total GDP and the UK
ranked fifth as the largest economy, contributing about 4% to world GDP
with an annual growth rate of around 2%. The economic relationship
between China and the UK and between China and the EU can affect the
landscape of the global economic development.

### 英國出口 UK Exports

<table>
<thead>
<tr>
<th>排名</th>
<th>目的地</th>
<th>2016年 1-5月 UK exports (百萬英鎊 million)</th>
<th>區上年同期變化 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>美國 United States</td>
<td>18,208</td>
<td>-3.6</td>
</tr>
<tr>
<td>2</td>
<td>德國 Germany</td>
<td>13,028</td>
<td>-0.2</td>
</tr>
<tr>
<td>3</td>
<td>法國 France</td>
<td>7,778</td>
<td>3.5</td>
</tr>
<tr>
<td>4</td>
<td>荷蘭 Netherlands</td>
<td>7,244</td>
<td>0.1</td>
</tr>
<tr>
<td>5</td>
<td>愛爾蘭 Irish Republic</td>
<td>6,480</td>
<td>-2.9</td>
</tr>
<tr>
<td>6</td>
<td>中國 China</td>
<td>5,305</td>
<td>-25</td>
</tr>
<tr>
<td>7</td>
<td>瑞士 Switzerland</td>
<td>4,790</td>
<td>-47.7</td>
</tr>
<tr>
<td>8</td>
<td>比利時 Belgium</td>
<td>4,642</td>
<td>-2.7</td>
</tr>
<tr>
<td>9</td>
<td>意大利 Italy</td>
<td>3,835</td>
<td>8.1</td>
</tr>
<tr>
<td>10</td>
<td>西班牙 Spain</td>
<td>3,770</td>
<td>3.9</td>
</tr>
</tbody>
</table>

### 英國入口 UK Imports

<table>
<thead>
<tr>
<th>排名</th>
<th>發貨地</th>
<th>2016年 1-5月 UK imports (百萬英鎊 million)</th>
<th>區上年同期變化 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>德國 Germany</td>
<td>25,390</td>
<td>0.8</td>
</tr>
<tr>
<td>2</td>
<td>美國 United States</td>
<td>14,754</td>
<td>2.7</td>
</tr>
<tr>
<td>3</td>
<td>中國 China</td>
<td>14,039</td>
<td>3.7</td>
</tr>
<tr>
<td>4</td>
<td>荷蘭 Netherlands</td>
<td>13,300</td>
<td>0.6</td>
</tr>
<tr>
<td>5</td>
<td>法國 France</td>
<td>10,066</td>
<td>-1.1</td>
</tr>
<tr>
<td>6</td>
<td>瑞士 Switzerland</td>
<td>3,778</td>
<td>137.1</td>
</tr>
<tr>
<td>7</td>
<td>比利時 Belgium</td>
<td>8,057</td>
<td>9.3</td>
</tr>
<tr>
<td>8</td>
<td>西班牙 Spain</td>
<td>5,852</td>
<td>15.2</td>
</tr>
<tr>
<td>9</td>
<td>意大利 Italy</td>
<td>6,488</td>
<td>2.5</td>
</tr>
<tr>
<td>10</td>
<td>愛爾蘭 Irish Republic</td>
<td>4,839</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

資料來源
Source: HM Revenue and Customs, Overseas Trade Statistics
約 2%。中英、中歐各項經貿關係足以影響全球經濟發展形勢。

現時，歐盟與中國並沒有簽署任何自由貿易協議。截至 2015 年，中國向歐盟市場的出口量僅居第一，同時是歐盟市場的第二大出口國。儘管歐盟市場龐大，但貿易失衡、各項反傾銷及反補貼指控令雙方關係緊張。現時中國有 60 餘種商品正面臨歐盟反傾銷和反補貼制裁。歐盟與美國亦積極阻撓貿易給予中國市場經濟的地位。

與此同時，中英雙方將成為彼此的戰略夥伴。中英關係迅速增長的出口數字，自 2004 年起已成為英國的重要夥伴。根據中國國家統計局數據，2012 年，英國是中國對外投資的第四大熱門地點（緊隨香港、美、哈薩克斯坦），比 2010 年的第 21 位和 2011 年的第 29 位均有躍升。2012 年，中國至英國的直接投資流入年度增長率達 95%。直至 2012 年底，中國已在英國投資了近 87.5 億美元，令英國成為中國的第三大外國直接投資對象。此外，英國是中國的第二大歐洲投資者（僅次於德國），累積了 187 億美元的直接投資。倫敦於 2015 年開始提供離岸人民幣期貨，令英國成為香港以外首個可以交易和對沖人民幣的市場。

### 脫歐以後

英國脫歐公投並無法律約束力，因此英國必須啟動《里斯本條約》第 50 條來正式展開英國與歐盟之間的新協定，亦必須於第 50 條生效後兩年內落實。英國脫歐後獲選的新首相文翠珊（Theresa May）指出，英國不會在 2017 年前啟動有關條約。至於英國和歐盟之間將有何新安排，則有待觀察。

最理想的情況下，如果英國可以協商取得與瑞士相似的待遇，即非歐盟國家可以直接與歐盟單一市場交易，無需受關稅聯盟約束要在歐盟以外自行進行貿易交易，對英國來說自然是兩全其美。一方面，英國仍然可以與歐洲其他國家保持緊密關係；另一方面，英國憑藉強大經濟實力和務實的經濟方針，很有可能可以在歐盟以外的交易取得豐碩成果。

The EU and China have no current free trade agreement. As of 2015, China is the no. 1 exporter to EU and no. 2 importer from the EU. Despite the large economic stakes, tensions arose in trade imbalance and anti-dumping and -subsidies charges. Sixty kinds of Chinese products are currently facing anti-dumping and -subsidies measures in the EU. The EU along with the US is also actively blocking WTO from granting market economy status to China.

At the same time, China and the UK are becoming each other’s strategic partner. China, with its rapidly increasing imports and exports, has become a vital partner of UK since 2004. According to the National Bureau of Statistics of China (NBS), the UK was the 4th most popular destination for Chinese outward investment (behind Hong Kong, the US, and Kazakhstan) in 2012, which moved up from 8th place in 2011 and 21st place in 2010. The annual growth rate of the inward FDI from China to the UK is as high as 95% in 2012. By the end of 2012, China has invested approximately $8.75 billion in the UK, making the UK China’s largest FDI recipient. Furthermore, UK is China’s second largest European investor (after Germany), with an cumulated direct investment of $18.76 billion. In 2015, London started to offer offshore yuan futures, making the UK second after HK where the movements in China’s currency can be traded and hedged.

### After Brexit

The EU referendum is not legally binding. The UK needs to evoke Article 50 of the Lisbon Treaty to start the exiting process formally. New arrangements with the EU should be finalized within a two-year period after the activation of Article 50. Theresa May, the newly elected UK Prime Minister after Brexit, stated that the UK will not evoke Article 50 until 2017. Much remains to be seen as to what new arrangements will be made between the UK and the EU.

Ideally, if the UK can negotiate a deal similar to Switzerland, a non-EU country with access to the single market and without binds to the Customs Union to enter into trade deals outside EU on its own, the UK can have the benefits of both worlds. On the one hand, it can maintain its close ties with the rest of Europe. On the other hand, the UK, with its economic strength and pragmatic economic approach, is very likely to strike fruitful trade deals outside the EU.

The appeals of the UK post-Brexit are very clear. The same cannot be said of the EU. On the one hand, the EU needs to maintain economic activities with UK to protect its economy. On the other hand, a departing UK means lower EU power in the future international landscape. Furthermore, the EU should aim to deter other EU countries from following UK’s lead in exiting the EU.
英國在脫歐後的好處非常清晰，而對歐盟而言是好事。歐盟一方面必須與英國維繫經濟活動以維護其經濟；而另一方面，缺少英國亦代表歐盟在未來國際間的影響力會降低。此外，歐盟應該會力圖阻止其他成員國跟隨英國的脫歐步伐。

前路如何

英國脫歐結果公佈之後，英鎊瞬即在一星期內急跌13%，至30 年來的歷史新低。然而，環球股票市場只見輕微下跌。標準普爾500 指數跌了2%，但恆生指數更幾乎未有變動。結果公佈過後，環球股票市場最近已收復失地並升上新高，表示英國脫歐對環球市場的影響或許有限。

「脫歐派」的成功為未來中英經濟關係帶來不確定因素。倫敦是世界上最重要的金融中心之一，而英國亦是外國進入其他歐盟成員國市場的踏腳石，這些都是英國的吸引之處。然而，英國作為通往歐洲門戶的地位或將退讓。因此，長遠而言需關注的是倫敦能否保持國際金融中心和人民幣離岸市場的領導地位，以及英國能否在脫歐後繼續成為中國投資者的首選歐洲國家。如果歐盟能與歐洲企業與中國商議到更優惠的協議，英國將要承擔脫歐決定的後果；但若英國可以自行與中國協議取得有利英國的貿易機會，脫歐則會帶來商機。因此，若英國可以借助脫歐拓展聯繫或增加對其他非歐盟國家的影響力，脫歐將對其經濟帶來正面影響。

英國脫歐亦可能會影響英美關係，但也許不及中英關係的影響重大。英美多年來都是強大的盟友，預期兩國的緊密關係會在脫歐後得以延續。

The Road Ahead

Immediately after the Brexit result announcement, the British pound dropped by about 13% within a week, reaching a 30-year historical low. However, the world stock market only experienced mild drops. S&P500 dropped by 2%, whereas Hang Seng Index hardly moved. In the days following the announcement, the world stock market recovered the losses and reached new highs recently, indicating that the impact of Brexit on the whole world may be limited.

The win of Brexit creates uncertainty over the future of the economic relationship between the UK and China. London is one of the leading global financial centers, and the UK is the stepping stone for business with other the EU members. These are the most attractive characteristics of the UK. However, the country’s position as a gateway to Europe may be compromised. Thus, the concerns in the long run are whether London will remain as the leading international financial center and Chinese Yuan offshore market, and whether the UK is still the leading destination in Europe for Chinese investors after leaving the EU. If the EU can negotiate a more favorable agreement with China for European companies, the UK will suffer from its decision. However, if the UK can negotiate its own UK-explicit trade deals with China, leaving the EU will bring opportunities. Thus, if the UK can use Brexit as the opportunity to develop links or increase its influence on other non-EU countries, the move can positively impact its economy.

The win of Brexit may affect the relationship between the UK and the US as well; however, it may not be as significant as it does to the Sino-British relationship. The UK and the US have long been strong allies and we anticipate that the close relationship should continue post Brexit.