



ASIA INSIGHTS

STRATEGIC PLANNING

What Will Brexit Mean for Emerging Markets?

The “unexpected” Brexit vote brought renewed volatility to global financial markets, with Asia no exception. In addition to equities, currencies in emerging Asia also took a hit as a result of the rising US\$.

However, despite the chaos in the immediate aftermath of the referendum, Brexit remains primarily a political rather than an economic crisis. The view of The Conference Board economics team is that the direct growth impact on emerging markets from Brexit is likely to be marginal, when compared to mature economies such as Europe, the US, and Japan. Most emerging economies’ trade and investment are widely diversified, and their exposure to the UK is relatively limited compared to mature economies: exports to the United Kingdom account for less than 1 percent of emerging Asia’s GDP.

In the short-term term, once the market panic abates, the Conference Board team does not expect Brexit to shake up the economic fundamentals of emerging Asia and emerging market economies in the rest of 2016. However, volatility in global financial markets is likely to stay in the coming months and global investors’ risk aversion will continue. The ongoing financial market volatility will also complicate emerging markets’ central banks’ policy making, which can impact businesses through changes in interest rates and local currency value.

The longer-term political and economic consequences of Brexit and its secondary impact on emerging markets are harder to predict and may be substantial. The potential impact will likely come from trade and foreign direct investment, and a possible reversal of globalization. This could be particularly dangerous for export-driven Southeast Asian economies. Additionally, as reported by Oxford Analytica, UK development assistance funds for programs in Southeast Asia may be at risk. Nevertheless, Brexit is still in its initial stage, and the UK has two years to negotiate its way out of the European Union.

In summary, the view of The Conference Board economics team is that the sky is not falling, at least not immediately. However, great uncertainty looms ahead. Businesses should not panic or jump to conclusions. Instead, our recommendation is that companies operating in emerging markets should plan their strategies around the different possible outcomes of the UK Brexit negotiation process in the next two years.

United Kingdom imports, top 25 trading partners. General trade, April 2016. Mature and emerging Asia and Australia highlighted.

Rank	Country of Dispatch	£million		
		April 2016	Year to date 2016	Year to date 2015
1	GERMANY	5,110	20,456	20,766
2	UNITED STATES	3,399	12,388	11,441
3	CHINA	2,730	11,666	11,433
4	NETHERLANDS	2,707	10,930	10,664
5	FRANCE	1,895	7,978	8,218
6	BELGIUM	1,826	7,112	6,457
7	SWITZERLAND	3,373	6,713	3,237
8	SPAIN	1,317	5,282	4,753
9	ITALY	1,276	5,234	5,158
10	NORWAY	916	3,929	4,751
11	IRISH REPUBLIC	995	3,874	3,858
12	CANADA	1,141	3,641	3,573
13	JAPAN	803	3,365	2,347
14	TURKEY	656	3,201	2,713
15	POLAND	728	2,746	2,631
16	HONG KONG	977	2,729	2,062
17	INDIA	567	2,104	2,122
18	SWEDEN	478	2,003	2,390
19	SOUTH AFRICA	746	1,929	1,299
20	AUSTRALIA	1,012	1,882	636
21	CZECH REPUBLIC	449	1,804	1,630
22	SOUTH KOREA	841	1,769	1,776
23	VIETNAM	376	1,229	898
24	RUSSIA	459	1,191	1,717
25	DENMARK	301	1,149	1,163

Source: HM Revenue and Customs, Overseas Trade Statistics.

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