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BREXITBOWL

Another week and another round of Brexit negotiations. A German election and lots of political posturing and airy talk – whether in Florence, Brussels or Paris.

But what does it all mean, and should businesses in the UK, Europe, the US, Asia and elsewhere sit up and act? The answer is yes they should.

While the bureaucratic machinations of the UK's exit from the EU continue, this has never only been a game for the policy and political wonks in London and Brussels. But always remember that whatever is being said by either side may not be as negative or positive as it appears; the bottom line is that this is political negotiation being played out in public.

What is clear is that these discussions will shape how easy or not it will be to invest or do business in the UK and Europe.

Alarm bells have also started to ring in the US. Despite President Trump's initial support, authorities there have now voiced concerned as to the potential impact of Brexit on financial markets and what implications any changes to euro clearing may have on their entities.

In this month's Brexit Bowl, we hear from our colleagues in Singapore, on the potential implications of Brexit for Southeast Asia and our usual analysis how the debate is taking shape in London and Brussels.

Yet, as ever with the EU, there is always time for a row.

Over the coming weeks, the EU will decide which cities will host the European Medicines Agency and the European Banking Authority, once they leave London. There is an economic and political prize on offer. And while substance and objectivity should be the overriding factor for identifying the winners, national interest, diplomacy and political weight will prevail providing a fascinating spectator sport.

Hans Hack and Fiona Holroyde

View from Brussels

There are plenty of short and long term challenges facing EU politicians and policy makers.

In the short term, Brexit prevails.

Negotiations continue on the divorce arrangements for the UK's exit, notably on citizens' rights and financial liabilities. Both the EU and UK sides spent the summer preparing and publishing several positions papers. While some have been light on detail, they do show a commitment to move the negotiations forward; an overriding priority given the tight deadlines involved to achieve a final deal.

A separate update on this week's negotiations can be found in this Brexit Bowl.

The foremost issue for EU government leaders is whether the Brexit negotiations are making sufficient progress. October's meeting of the heads of EU governments at the European Council is significant in that it will determine how much progress has been achieved. Crucially for the UK, this assessment will determine whether talks can begin about a future trade deal between the UK and EU; a top priority for the UK.

The EU27 are currently sceptical as to whether the UK has done enough to justify this acceleration and deepening of talks. Donald Tusk, EU Council President, said during a visit to London this week that he could not see sufficient progress as yet, though he hoped that could change.

The influential German industry group the BDI has also voiced its own frustrations, claiming earlier in the summer that the UK "lacked a clear course" and needed to make "clear statements on their withdrawal arrangements." But contrary to some captains of industry in the UK, there has been a much quieter profile from other European industry groups and companies so far; business and markets will be watching closely for any grumbles to suggest a potential winter of discontent.

UK Prime Minister Theresa May's Florence speech on Brexit did strike a more emollient tone. The EU27 appreciated the goodwill, but they are equally eager to see the details of proposals for the UK meeting its financial liabilities and how precisely the rights of EU citizens will be safeguarded. Words are welcome, but the rest of Europe wants to see the colour of the UK's money.

While there remain enormous amounts of uncertainty for business, May's backing for a post-Brexit two year transition period will give companies further breathing space – as long as the EU27 agree. The longer term relationship would however still be up in the air.

Despite the attention given to the negotiations, Brussels and the EU are not standing idly by for Brexit to happen. There are signs that the EU27 is attempting to shape its future agenda and take charge of its own destiny.

Both Commission President Juncker and President Macron of France have this month set out their own separate visions for future reform of the EU. While many of their proposals and ideas will not be implemented any time soon (and would need a broad range of support amongst other EU governments) it demonstrates that some EU leaders are not afraid of launching a debate about life after Brexit.

The outcome from the German election might have provided even stronger momentum for EU reform. A clear victory for Chancellor Merkel could have boosted the Franco-German engine alongside Macron. However, Merkel's requirement to agree a programme of government with other parties will initially constrain her room for manoeuvre.

This is not a debate that corporates should turn a blind eye to. Debates about the future direction of the EU are not only about institutional tinkering; it is also a debate about how open the EU is for investment and trade. For example, the Commission's proposal for the screening of foreign direct investment into the EU was seen by some as a protectionist move.

While some of the ideas being floated are aimed at making the bloc of soon to be 27 governments more efficient and competitive (such as the proposal for a single Eurozone budget) there exists a real risk that such controversial ideas could lead to discord within the EU at a time when unity is the name of the game for Brexit. The Dutch Prime Minister, Mark Rutte, was quick to voice disparaging noises about Juncker's visionary ideas.

As the debate gathers pace in Brussels and as more balls have to be juggled at the same time with the prospect of talks on divorce, transition and the future relationship, the fear is that one of these gets dropped, with negative consequences for business and the economy.

View from London

You'd be forgiven for not noticing much progress. Disunity seems to prevail in the UK with the two main political parties showing themselves to be at odds internally and with each other, whilst relations between the UK and EU appear at times strained.

It's been a busy week for HM Government. The Prime Minister gave a much-awaited speech on Brexit in Florence and David Davis, the UK's Brexit negotiator, attended the fourth round of talks. Donald Tusk's talks with Theresa May were a crucial opportunity to engage more directly with Member State leaders as part of her attempts to side-line the EU's negotiators. That said, President Macron of France warned 'we cannot move forward' if progress over citizens' rights and the like is considered insufficient.

Likewise, the Irish Taoiseach, also in London this week, cautioned there is insufficient progress for trade talks.

The EU is refusing to budge: this is frustrating for the UK government, which has consistently pushed for talks on trade to occur alongside so-called divorce proceedings. London might be scratching their heads a little, given the position papers it has published as well as the Prime Minister's commitment to unconditional cooperation with the EU on security issues and to write into the exit treaty legal protections for EU citizens.

The Prime Minister is not helped by the constant in-fighting between prominent Cabinet ministers. Boris Johnson's 4,000-word article in the Daily Telegraph newspaper prompted not so much outrage, but did illustrate a chasm between his vision for Brexit and that being officially pursued by the government. Tension in the Cabinet reached new heights amid newspaper reports of Philip Hammond and Johnson briefing against each other, all against a backdrop of Theresa May's lack of authority over her own party. She'll no doubt use Conservative Party Conference next week to instil renewed discipline.

And then there's Labour, which, despite a well-received letter in the Observer newspaper outlining its desire to keep Britain in the single market and customs union at least for a transitional period, has denied its members at this year's Party Conference the opportunity to discuss Brexit as one of the eight policy motions for full debate. Other party members are angry that Labour is seemingly giving too much power to the Tories by not voting against EU-related legislation. Labour's problem remains trying to balance the views of the Brexit-supporting working classes in the party's northern England heartlands with those of the pro-Remain chattering classes in pockets of London and the South.

Legislation-wise, there are fewer bumps in the road. The European Union (Withdrawal) Bill, which will take the UK out of the bloc, passed its most recent reading in the House of Commons thanks to the backing of seven Labour MPs and no rebellions from its own backbenches. The government still needs to tread carefully, however, conscious that controversial Brexit legislation could easily be defeated by the pro-EU MPs in its own camp. The next phase of the Bill is the committee stage. A date has not yet been announced, but MPs will go through the proposals in far more detail, scrutinising it line by line. Expect there to be more resistance as MPs are offered the chance to remove finer aspects of the legislation.

Public attitudes are getting progressively more pessimistic. One poll conducted before the Prime Minister's Florence speech suggests that 52% of the country think the UK is going in the wrong direction. More interesting, however, is who Brits blame for a lack of progress: just 13% think the UK alone is prohibiting progress, whilst 36% argue the opposite. So it seems that for all this talk of chaos, the government is getting a disproportionate piece of the blame.

Negotiation Snapshot

The improved atmosphere that followed PM May's speech in Florence appears to have had a positive influence on the fourth round of Brexit negotiations that took place in Brussels this week. While there were no breakthroughs, the talks are getting more into the detail and substance.

David Davis stated that this has been a vital round, built on the significant efforts of the UK government, having now published 14 position papers covering technical negotiation details since the exit talks began. Michel Barnier was also more upbeat, confirming what he believed was a productive week of work.

Both teams had managed to create clarity on certain points. Davis cited increased certainty for citizens and businesses; On the financial settlement - he pointed to May's Florence speech where she reassured Member States they will not need to pay more or receive less over the remainder of the current EU budget plan as a result of the UK's decision to leave. On Ireland, the UK welcomed the EU's recent guiding principles paper which reaffirms the high degree of alignment between the two blocs. In a signal of progress, the teams this week started drafting joint principles on preserving the Common Travel Area and associated rights.

Differences clearly remain. One sticking point is how the rights of EU citizens living in the UK will be enforced after departure as the UK will not accept the remit of the EU Court of Justice.

Crucially Barnier concluded that more clarity is still needed and that insufficient progress had been achieved to justify opening the talks on trade as yet

The next round of negotiations will take place during the week of 2 October, ahead of the European Council that will be held on 19-20 October where a formal assessment on the progress made so far will take place.

View from South East Asia

South East Asia is a region highly dependent on exports and foreign investments, which makes the uncertainty surrounding Brexit a real problem. The ten countries that make up ASEAN (Association of Southeast Asian Nations) are a major destination for global FDI, with the region receiving US$120 billion in 2015, which represents nearly 16% of the world's FDI amongst developing countries.

Furthermore, over the last decade, GDP growth has consistently surpassed that of any other region in the world. The combined GDP of ASEAN's countries is over US$2.8 trillion, and if counted as a single entity, would rank sixth in the world.

What is clear is that the world has opened its eyes to ASEAN's potential and future growth, and that the global, and indeed European, appetite to capitalise on the burgeoning economic opportunities in the region continues to grow apace. The key question is how can the EU and UK companies contribute to and benefit from the tremendous (trade) opportunities and potential ASEAN has to offer?

EU relationship with ASEAN

The EU is the largest investor in the South East Asia region, accounting for about a quarter of the total FDI in ASEAN (EUR 234 billion in 2015), topping the FDI inflows of the United States and China combined. Bilateral trade in goods has almost doubled in the last ten years; the EU is ASEAN's largest trade partner (after China) with a share of over 13% of its market, while ASEAN is the EU's largest trade partner outside of Europe (behind only the US and China), with trade totalling over EUR 200 billion last year.

Testament to the business as usual attitude was the mere 12% of this year's EU-ASEAN Business Sentiment Survey respondents who stated that Brexit will affect their trade and investment plans. On the contrary, in the shadow of Brexit, European businesses remain keen, even emboldened, to pursue closer ties between the EU and ASEAN; discussions have already begun on a region-to-region FTA, which will be instrumental in achieving this. The EU has already finalised two FTA negotiations with Vietnam and Singapore and negotiations are ongoing with another four countries.

The 2017 EU-ASEAN Business Sentiment Survey found that 94% of European businesses plan to expand or maintain their current levels of operations and headcount in the ASEAN region, a statistic that highlights the fact that appetite for regional integration also comes against a backdrop of increased trade and investment activity.

UK relationship with ASEAN

ASEAN is of increasing importance to the UK. More than 3,000 British businesses now operate in the region, and at $17.4 billion (in 2015) ASEAN is the UK's eighth biggest export market, which is worth more than twice the value of UK shipments to India. Under former UK Prime Minister David Cameron, Britain signed a number of agreements such as the Vietnam-UK Strategic Partnership and the Treaty of Amity and Association with ASEAN. It also became a strategic partner of Indonesia and re-established diplomatic relations with Laos, while also acting as the prime mover behind lifting EU trade sanctions against Myanmar in 2013. The UK's role in ASEAN goes beyond commerce.

This importance is further demonstrated by the UK's relationship with ASEAN member Singapore, which is the UK's largest trading partner in the ASEAN region and its fifth-largest outside the EU. The UK is also the fourth-largest FDI investor in Singapore. As a result, it is likely that the UK will wish to enter into FTAs with ASEAN and/or with individual ASEAN Member States as soon as possible after Brexit has taken place. With the terms of the EU-Singapore FTA already agreed, the UK could use that as a basis for its own FTA with Singapore as well as other members of ASEAN.

The UK has much to gain from closer relations with ASEAN. Currently, its businesses do more trade with Belgium than Indonesia, Malaysia, Vietnam and Singapore combined. The opportunity cost will be even starker in a few years' time: by 2030, ASEAN is projected to be the fourth biggest market in the world after the US, EU and China and should deliver more than $2 trillion in new consumption by 2020, according to the IMF.

Going forward, while not welcoming the referendum result, leaders of various ASEAN countries have issued positive statements regarding the pursuit of future FTAs with a post-Brexit UK.

Malaysia's Prime Minister Najib Razak said that he welcomed the opportunity to have a closer economic partnership. Singapore's Prime Minister, Lee Hsien Loong, was more candid in his assessment: "Brexit weakens the EU, and we are not sure that it strengthens the United Kingdom". He did however stress the historical and ongoing trade ties that make Britain an attractive trade partner in the future; "We will make the best of the new reality".

With or without Brexit, the EU is a key market for ASEAN and vice-versa. While there remain very few certainties around Brexit, it is fair to say that it likely brings an end to any discussions surrounding ASEAN following the EU model.

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