



DEZAN SHIRA & ASSOCIATES

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BREXIT UPDATE

Hot Topics Seminar

September 27, 2016

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On 23 June 2016, the UK held a referendum on its membership of the EU. □

The question posed was “Should the United Kingdom remain a member of the European Union or leave the European Union?”. □

The results were as follows: - Leave 51.89% - Remain 48.11% □

Total number of votes cast 33,551,983

Why Did the UK Vote to Leave?

- David Cameron's negotiations for a fundamental change in the UK's relationship with the EU delivered nothing of substance.
- Inability to control borders was a huge concern
- £350m a week ☐
- Public simply did not believe the economic scare stories being put forward by the Remain campaign ☐
- The Labour Party did not really engage with the Remain campaign ☐
- The Boris Johnson effect ☐
- The older generation wanted to leave and were more motivated to turn out to vote ☐
- The UK had never embraced the EU – always sceptical

What is the Current Position?

- The UK remains a full member of the UK at the present time. □
- Article 50 needs to be invoked to start the formal process of leaving the EU. □
- Once Article 50 is invoked, the UK will cease to be a member of the EU after two years – regardless of how exit negotiations progress – unless the European Council unanimously decides to extend this period. □
- Therefore, the UK will remain a member of the EU until early 2019 at least as the UK government will not invoke Article 50 before early 2017.

Potential Models for Future

There are three main models of EU interaction which seem the most likely to be adopted.

□ **1. Norwegian model:**

- ✓ Member of EFTA (European Free Trade Association)
- ✓ Access to global free trade arrangements
- ✓ Right to be a party to the EEA (European Economic Area) - EEA members must comply with EU rules and restrictions including fundamental freedoms like freedom of movement of people, goods, services, capital &
- ✓ Difficult politically

Potential Models for Future

2 . **Swiss model:** -

- ✓ Member of EFTA but not EEA
- ✓ Access to single market via bilateral agreement
- ✓ EU unlikely to want to replicate this.

3. **Canadian Model**

- ✓ Bespoke arrangement with EU via agreements and decisions of WTO
- ✓ Not a reality as yet
- ✓ Politically acceptable to the UK
- ✓ Will take time to negotiate

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- The referendum result was a massive shock to the political classes
 - Lengthy political negotiations will ensue ☐
 - EU will not want to make things easy for the UK – risk of contagion ☐
 - Period of some uncertainty ☐
 - Expect UK government to take proactive steps to safeguard UK's place as hub of inward investment activity ☐
 - The next 2-3 years will be interesting!

Social Aspects

- Olympics!!
- Spending & tourism spree
- London as the worlds melting pot
- London as the worlds financial center
- Music
- Fashion
- Education

Economic Aspects

- Value of Pound
- FSTE
- Decrease in Tourism
- Increase in UK Tourism

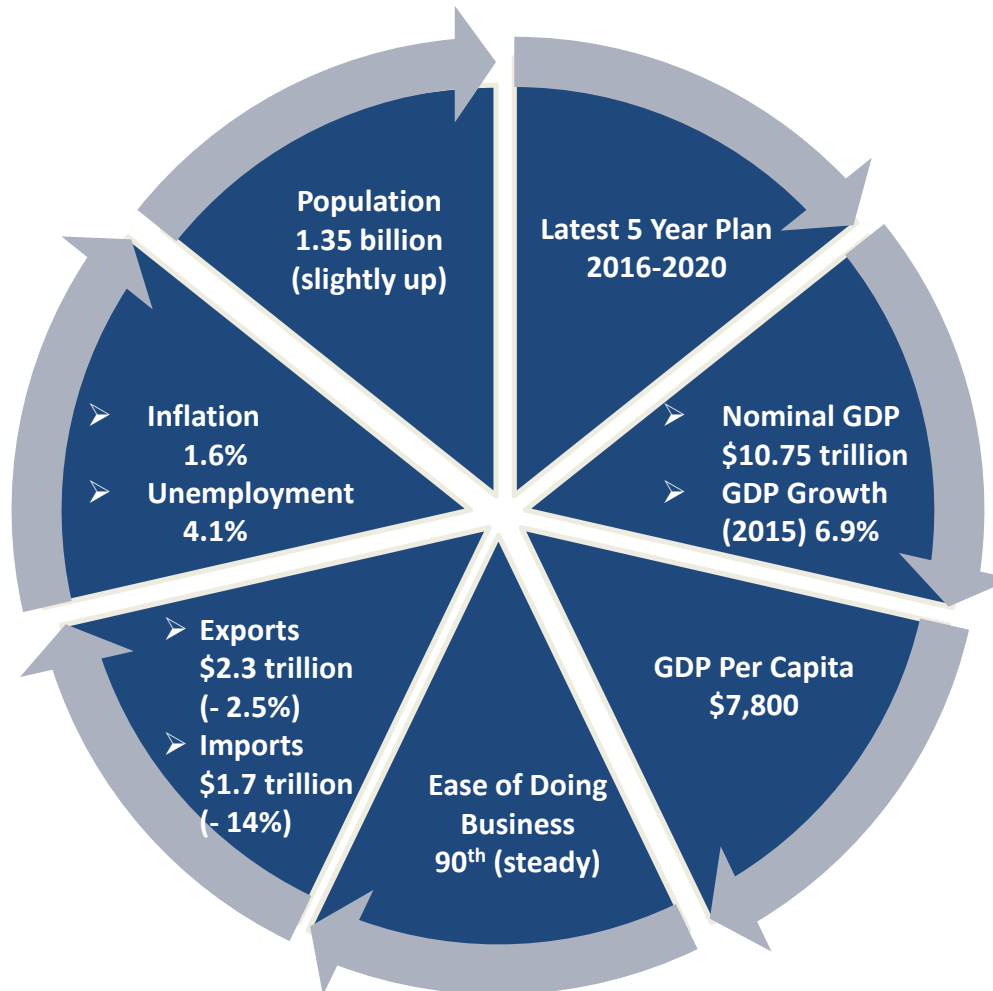
Economic Aspects

- As of August 2016:
 - **UK employment has never been higher**
 - **Inflation has edged up (0.6%) but remains low**
 - **Households' hopes for their finances rebounded after the vote**
 - **The deficit is smaller than this time last year**
 - **The FTSE has rallied to approach an all-time high**
 - **The pound has tumbled against the euro and the USD**
 - **Surveys (PMI, Output Index) point to the economy shrinking**
 - **Recession?**

Trade Aspects

- TTIP negotiations started in 2013
- TTIP likely dead in this environment
- UK-USA BIT <https://www.linkedin.com/pulse/united-states-focused-multilateral-trade-agreements-carl-islam?trk=pr>
- UK-EU Trade deal

China Economic Snapshot



China Economic Drivers

- Transition from manufacturing to **services** and **consumer based consumption**
- **Anti-corruption campaign**
- Greater **market liberalization** of key industries (finance, telecom)
- Consumer society and nationwide **retail boom**
- Appetite for **technology**, high-end consumer items and infrastructure
- Booming **e-commerce** industry

Brexit & China

- Brexit may have an immediate negative effect on Chinese exports.
- Is Brexit a disaster for China as it could mean the end of globalization and free trade?
- China has to reboot its European/UK strategy
- The UK has been wooing Chinese investment-what is its status?
- Hinkley Point C nuclear reactor- The start of the 'Golden Relationship'
- Is China/Asia (and USA) the new focus for the UK?
- Is Europe 'dead' in the short & medium term?

Brexit & China

- London's role in the internationalization of the RMB and the expansion of Chinese banks
- Reform of the services sector in China would be a major boost too the UK
- Fast-tracking China - With a cheap pound, and uncertainty in Europe, UK businesses can prioritize China within their international expansion plans.
- Shopping Frenzy - This summer has seen a boom in Chinese online and retail spending at major UK retailers.
- UK-China Free Trade Agreement (FTA).
- UK Leadership team: Who's side are they on?

Brexit & China

China Top Trading Partners

- U.S. – \$590.4 billion in 2015
- EU – US\$ 585.63 billion in 2015
- Hong Kong -US\$ 568.7 billion in 2014
- Japan - US\$ 306.7 billion in 2014
- UK – US\$ 78.5 billion (The UK doesn't rank in the Top 10)

Brexit & Japan

The Japanese Demands to UK & EU

- *Maintenance of the current tariff rates and customs clearance procedures*
- *Maintenance of the access to workers who are nationals of the UK or the EU*
- *Maintenance of the freedom of establishment and the provision of financial services, including the “single passport” system*
- *Maintenance of the freedom of cross-border investment and the provision of services as well as the free movement of capital, including that between associated companies*
- *Location within the UK of EU agencies such as the European Medicines Agency (EMA) and the maintenance of the UK’s access to the EU budget for research and development and participation in the Japan-EU joint research project*
- *Maintenance of basic policies regarding the entry of foreign capital and implementation of measures to promote investment*
- *Ensuring the consistency of regulations and standards between the UK and the EU*

Brexit & Japan

Additional Demands to UK

- *Liberalisation of trade in goods without the burdens of customs duties and procedures.*
- *Maintenance of access to workers with the necessary skills.*
- *Maintenance of basic policies regarding the entry of foreign capital.*
- *Implementation of measures to promote investment.*
- *Maintenance of the current levels of information protection and the free transfer of data in case the UK establishes its own legislation distinct from the EU's.*
- *Ensuring the consistency of regulations and standards between the UK and the EU.*

Asia & ASEAN

- **Asia is the fastest growing region in the world**
- **ASEAN comprises of 10 Asian Countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.**
- ASEAN Free Trade Zone of 600 million people, with zero tariffs on all products and services by 2015.
- GDP: USD 2.6 Trillion
- **ASEAN FTA by 2015, creates a market in total of 3.8 billion consumers, including 700 million of middle class standard**
- ASEAN has FTA's with Australia, India, New Zealand, China, Japan and South Korea
- Impact of Trans Pacific Partnership (TPP)
- Impact of Asian Infrastructure Investment Bank
- ASEAN Economic Community

Brexit & ASEAN

Immediate term considerations

- **Risks**

- Currency / securities volatility
- Nonpayment of UK buyers due to FX shifts.

- **Opportunities**

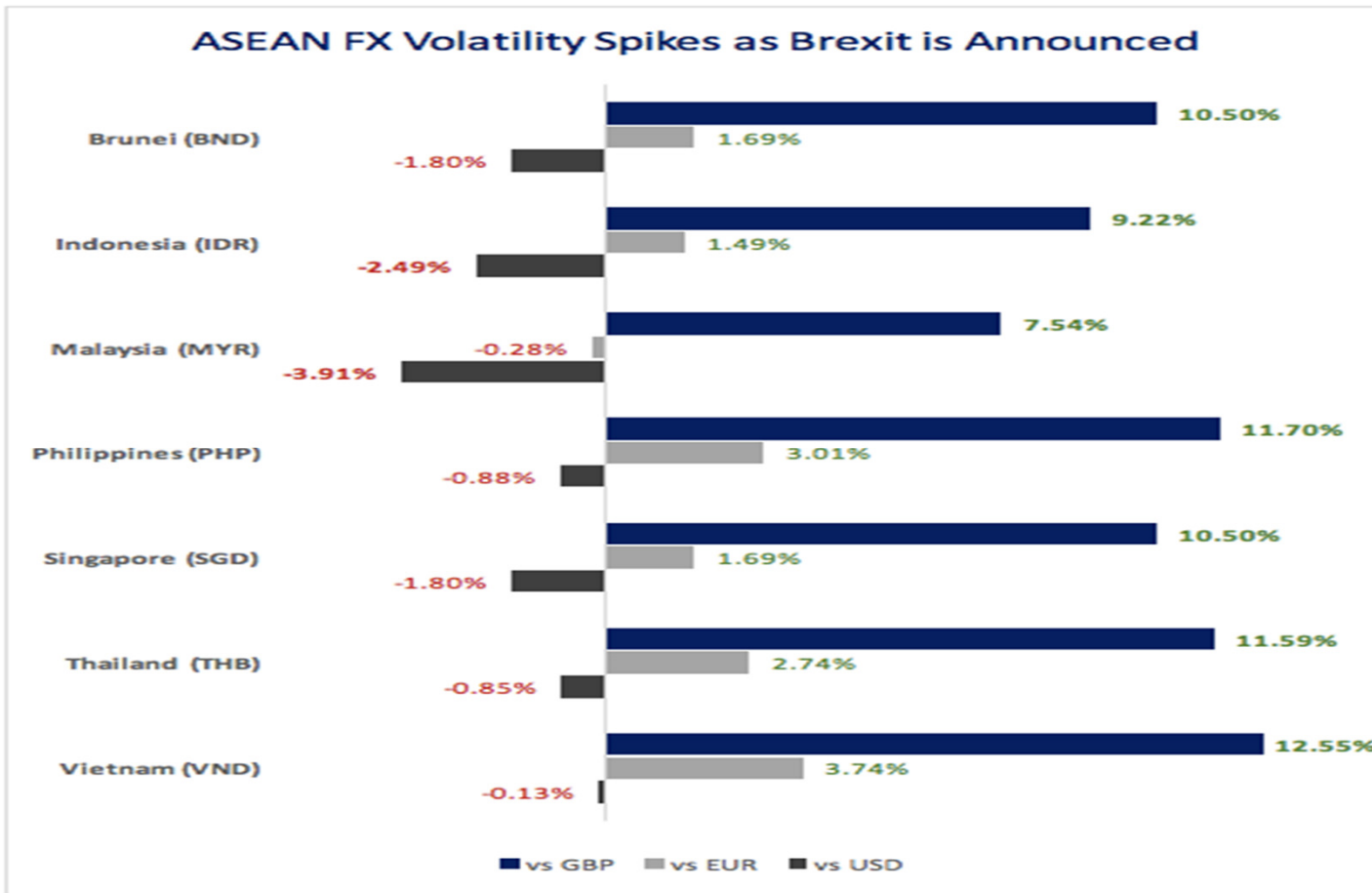
- Payment of loans in pounds / euros
- Increased spending power in ASEAN (investment)

- **Solutions**

- Monitoring EU / UK and understand the Brexit Timeline
- Assess Supply Chains / Export partners
- Assess EVFTA & TPP to understand opportunities

Brexit & ASEAN

Short-Term Considerations: Foreign Exchange Volatility



Brexit & ASEAN

Medium Term

- **Risks**

- Stalling of EU trade deals currently in negotiation
- Falling UK Demand as economy slows (as a result of reduced investment)

- **Opportunities**

- Implementation of TPP / EVFTA / Singapore EU agreement.

- **Solutions**

- Restructure supply chains to mitigate risks
- Implement strategy to take advantage of TPP / EVFTA
- Assess current operations and plans for regional expansion

Brexit & ASEAN

Long Term

- **Risks**

- Loss of UK common standards between EU and UK
- Loss of UK inclusion in EU FTAs
- Brexit contagion in Europe
- Falling EU demand

- **Opportunities**

- Bilateral FTAs between the UK and ASEAN states

- **Solutions**

- Reorient production to more stable markets
- Take advantage of any new trade agreements

Brexit & ASEAN

Long Term Challenges: Trade Liberalization

ASEAN Post Brexit

Trade Agreements & Import / Export Value

| | EU FTA Agreement | Exports to UK (USD) | Imports ¹ from UK (USD) |
|--------------------|----------------------------------|---------------------|------------------------------------|
| Brunei | N/A | 48 million | 630 million |
| Cambodia | N/A | 1.3 billion | 25 million |
| Indonesia | N/A | 1.8 billion | 704 million |
| Laos | N/A | 50 million | 9 million |
| Malaysia | Negotiations launched | 2.6 billion | 2 billion |
| Myanmar | N/A | 157 million | 26 million |
| Philippines | Negotiations launched | 627 million | 600 million |
| Singapore | Signed & awaiting implementation | 1.4 billion | 6 billion |
| Thailand | Negotiations launched | 3.6 billion | 1.8 billion |
| Vietnam | Signed & awaiting implementation | 4.8 billion | 575 million |

¹ Based on 2015 UK export figures

Source: ADB, ITC Trademap (2015)

Brexit & ASEAN

Long Term Challenges: Trade Liberalization

- UK lacks trading arrangements with ASEAN
- UK will not be included in all of the pending EU- ASEAN arrangements
- UK will have to initiate new arrangements
- ASEAN confidence in EU is potentially challenged. May delay negotiations.
- Role of China in go forward

Brexit & ASEAN

Investment Opportunities: The TPP & Vietnam

- A select group of ASEAN markets and investors stand to reap major advantages from the diminishing position of Europe within ASEAN.
- Vietnam is likely to be the big winner. Given its unique position in low cost manufacturing, Vietnam will likely be more competitive than ever
- TPP is likely to solidify advantages for its 11 members within ASEAN. The reduction of tariffs and convergence of regulations with Malaysia, Singapore, Brunei, and Vietnam provide significant opportunities for TPP members that will now be out of reach for European competitors.

Brexit & ASEAN

Impact of Vietnam EU FTA

- Expected to go ahead despite Brexit
- Will remove nearly all tariffs on trade
- Will promote the influx of capital into Vietnam
- Expected to take effect in 2018
- Increase two way trade by 30%
- UK will not benefit

Questions?

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