

BREXIT IMPACT ON TRADE AND THE BRITISH ECONOMY

In what sense “leave” the EU?

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AGENDA

1. trade and economic implications
2. range of BREXIT alternatives
 - * soft v. hard
3. economic and political trade-offs

THE NEGOTIATIONS

- (1) Stage 1: Withdrawal Agreement
- (2) Stage 2: Transition period
- (3) Stage 3: Long-term economic and trading relationship

CONTEXT

- UK is quintessentially a trading nation: 64% of GDP
- EU is UK's biggest trading market: 44% exports and 53% imports
- Exiting the world's biggest single markets and customs unions
- First time in history a major trading nation considers such a wide range of alternative trading models
 - “there is no precedent of a advanced country withdrawing from a trade agreement as deep and complex as that which the UK has with the EU” (Governor of the Bank of England)

HISTORICAL PERSPECTIVE: DIFFERENT PERCEPTIONS

(1) Economic Integration

versus

(2) Political Union

LEAVING THE EU

In what sense is it a vote to “leave the EU?”

- economic or
- political dimension?

Common Market 2.0 ?

UK HISTORICAL APPROACH TO EU

- “semi-detached but disproportionate influence”
- Opt-outs: Schengen, euro, bail-out contributions
- Rebate
- Breadth rather than depth
- Variable-geometry

THE CASE MADE FOR BREXIT

- Sovereignty and independence
- End of budget payments
- Enhanced growth potential
- Free to make own trade deals: easy trade deals with growth potential of ROW
- Control over borders and immigration
- Escape from restrictive EU regulation
- Free from jurisdiction of ECJ

ROUTES OF ECONOMIC IMPACT

- Impact on trade with the EU: *gravity effect* – 10%
increase in distance lowers bilateral trade by 9%
- Lost access to EU trade deals
- Impact on immigration
- Impact on budget
- Foreign Direct Investment
- Negative impact of uncertainty

ECONOMIC IMPACT

TABLE 3
Percent impact over 15 years

	WTO	FTA	EEA	WHITE PAPER
GDP	-7.7	-4.9	-1.4	-0.6
GDP with zero net inflows of EEA workers	-9.3	-6.7	n/a	-2.5

THREE SETS OF TRADE DEALS

1. With the EU
2. With existing third countries that have an agreement with the EU (UK)
 - cannot get a better deal than the EU has due to MFN clause
3. Rest of World

TRADE DEALS

- Blocks and power
- Hard bargaining
- NTBs difficult to negotiate
- Services are difficult to negotiate
- UK no longer member of EU
- US problematic: mercantilist ethos
- Balance: UK takes 10% of EU exports compared with 45% of UK exports to EU
- Access to Single Market:
 - never without contribution to EU budget
 - Free movement
 - Regulation (Norway = 90%)

TRADE OFFS

“In politics there are no ideal solutions: only trade-offs”

Thomas Sowell, *A Conflict of Visions*, 1987

BREXIT MATRIX: RANGE OF BREXIT MODELS

Spectrum of soft – hard BREXIT

1. Revoke Article 50: *status quo* of remain
2. European Economic Area option (Norway model)
3. Common Market 2.0 (Norway plus)
4. Customs Union
5. Free trade agreement
6. World Trade Organisation rules
7. WTO with unilateral (zero) tariffs

BREXIT MATRIX: CHARACTERISTICS OF BREXIT MODELS

Common Market 2.0 WTO

* member of single market?	YES	NO
* tariff-free access to single market?	YES	NO
* member of EU customs union?	YES	NO
* free movement of labour?	YES	NO
* payments to EU budget?	YES	NO
* EU regulation?	YES	?
* EU decision-making	NO (?)	NO
* jurisdiction of ECJ	YES	NO
* Negotiate trade deals?	NO	YES
* customs controls and rules-of-origin tests?	Minimal	YES
* subject to non-tariff barriers?	limited	YES
* Northern Ireland border problem solved?	YES	NO

WTO DILEMMA

KEEP EU PRICES CONSTANT IN STERLING

- no tariffs imposed on imports from EU
- MFN clause: zero tariffs on similar imports from all countries
- threat to UK agriculture and manufacturing

PROTECT UK AGRICULTURE

- impose tariffs on imports from EU
- rise in sterling prices of imports from EU

WHERE DO WE GO FROM HERE?

Exit with or without a deal is the legal default position for October 31st

Possible future alternative scenarios:

- * Agree to the current deal
- * Negotiate and agree to a different deal
- * Seek an extension to deadline of October 31st
- * Exit without a deal *or*
- * ***Parliament rejects no-deal option***
 - * Second referendum *or*
 - * General election
 - * Revoke Article 50 and remain an EU member