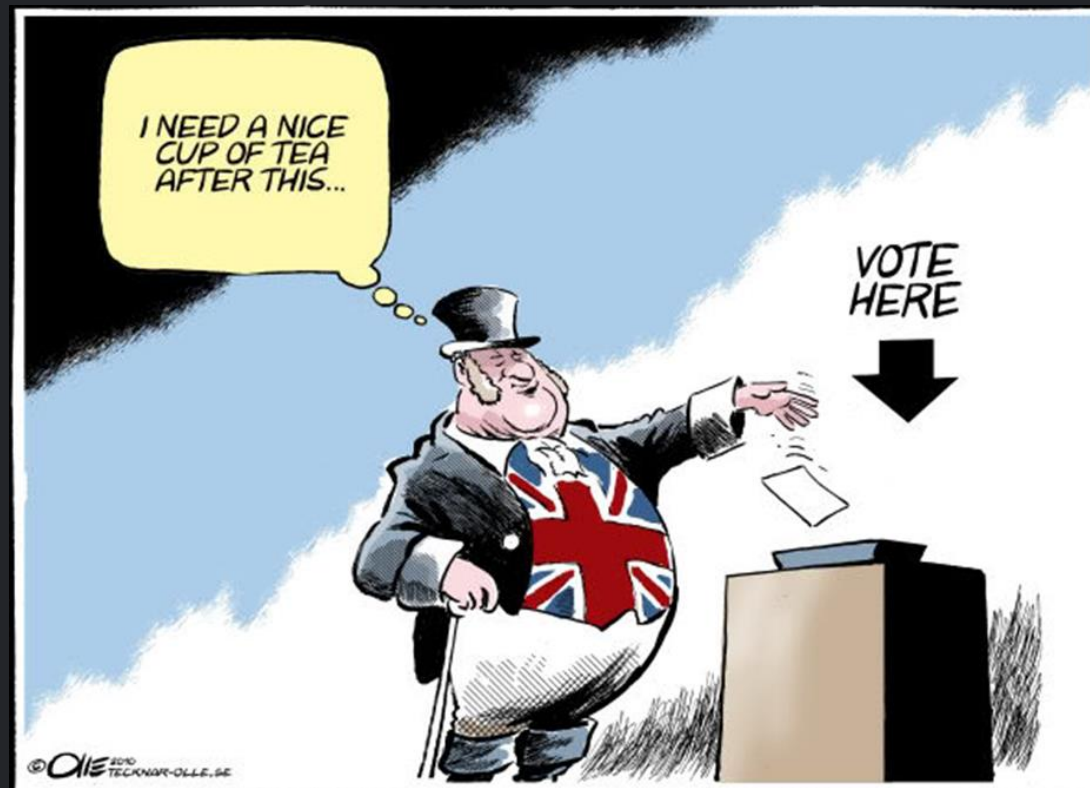
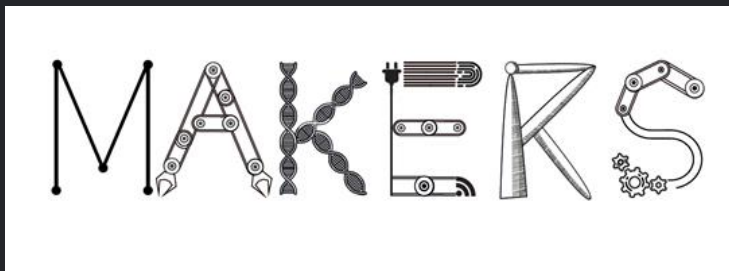


# Brexit, the UK economy and manufacturing (especially UK auto)

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# Economic Impact of EU membership on UK? (and hence Brexit)

Costs and benefits of EU membership

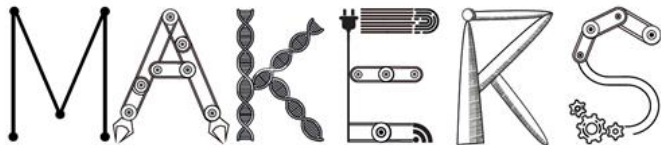
Trade & Investment → Jobs

Regulation

Immigration

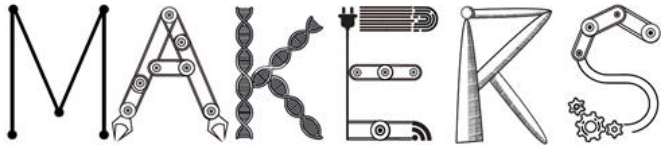
Fiscal consequences – the EU budget

Case Study: UK Auto Industry



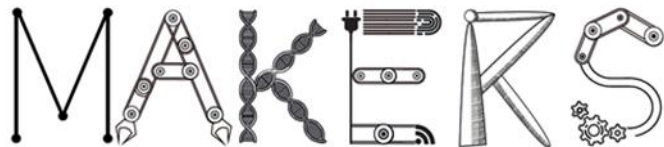
# Sources

- ▶ *UK in a Changing Europe* website
- ▶ House of Commons Library Reports
- ▶ Various research reports
- ▶ BBC News and ITV News
- ▶ SMMT
- ▶ OECD, IMF, NIESR, IFS, Treasury Report...
- ▶ ESRI (Ireland) Report on possible effects of Brexit



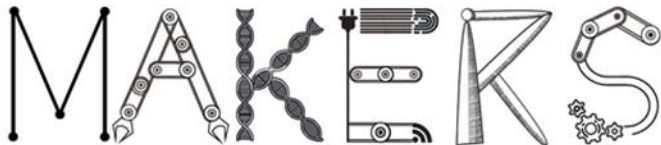
# 1 Costs and benefits of EU membership

- ▶ *Remain:* “The CBI says that all the trade, investment, jobs and lower prices that come from our economic partnership with Europe is worth £3000 per year to every household”.
- ▶ *Leave:* “The EU costs the average UK household as much as £9,265 a year.”
- ▶ Which is correct? (NB the ‘household’ figure is pretty meaningless anyway)



# £3000 a year benefit?

- ▶ Jonathan Portes (UK in a Changing Europe): not credible.
- ▶ Adding up different studies answering different questions doesn't work
- ▶ Based on a selection of studies produced at different times (some date back over a decade), with different methodologies, and designed to answer different questions.
- ▶ Some looked at the economic impact of EU membership to date, and some at the future impact of a vote to leave. Some are not even specific to the UK.



# £9,265 a year cost?

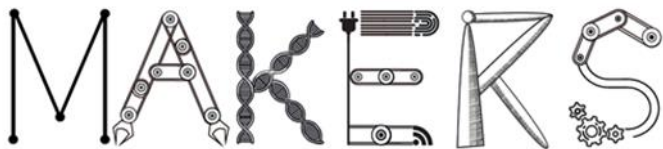
- ▶ It argues that EU membership reduces the value of the UK economy, measured in GDP, by about 13%.
- ▶ BUT it assumes that on leaving the EU, the UK would remove *all* barriers to trade with the rest of world, and abolish *all* EU regulations (eg environment and labour market).
- ▶ Again, Portes: **this doesn't stack up.**
- ▶ This may well not happen, and even if it did, savings may not be this high
- ▶ The calculation also includes some arbitrary and unsubstantiated “gains”... claim that UK contributions to bailing out eurozone countries have, or possibly will, cost the UK 2% of GDP.

# So what can we say?

- ▶ *UK in a Changing Europe*: EU membership so far has made the UK's economy more open and bigger
- ▶ *Bank of England*: EU membership has seen increased openness to flows of trade, investment and labour.
- ▶ (→ helps economic growth and improves living standards, although UK more exposed to economic and financial shocks from overseas).
- ▶ Nick Crafts: *past* EU membership has increased UK productivity – and so GDP – by about 10%.
- ▶ BUT any precise number about the future will be wrong...
- ▶ *If* economists right that EU membership boosted UK growth *in the past*, no guarantee it would do so *in the future*.

# Impact of the Leave vote?

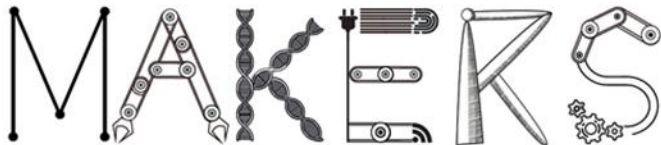
- ▶ The impact of the vote to leave will depend crucially on two things:
- ▶ 1. Trading arrangements between the UK and remaining EU countries. These will now have to be negotiated after the Brexit decision.
- ▶ 2. Economic policies adopted by the UK government after we leave.
- ▶ → a range of possible outcomes... but most economists think that leaving **will come at *some* economic cost**





# Economists' views on Brexit

- ▶ FT survey of 100 economists: three-quarters thought that leaving would reduce the size of the economy in the medium term compared to staying in. Less than one in ten thought it would improve growth prospects.
- ▶ Three recently published studies:
  - ▶ Centre for Economic Performance (LSE)
  - ▶ Price Waterhouse Coopers for the CBI
  - ▶ Oxford Economics



# Economists' views on Brexit

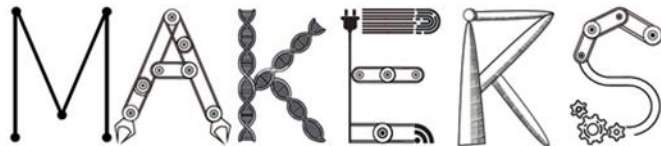
- ▶ All 3: leaving will have some negative impact on the UK economy compared to staying in.
- ▶ Impact is smaller the closer any new arrangement are to our current economic relationship with the EU.
- ▶ Estimates range: from close to zero in one model (if we continue to be part of the Single Market, keep allowing free movement of labour from the EU, and so on) to significantly *negative* if leaving results in substantial new barriers to trade.
- ▶ Treasury Study: 6% smaller by 2030. OECD, IMF
- ▶ NIESR: GDP could be 1.5-7.8% lower by 2030 + “substantial loss of export trade” → IFS extended austerity?

## 2 Trade, Investment → Jobs?

- ▶ EU is the UK's major trading partner: 45% UK exports & 53% UK imports of goods & services in 2014
- ▶ EU is the largest source of inward investment in UK. In 2013, EU countries accounted for £453bn worth of the stock of inward FDI, or 46% of the total.
- ▶ Over £4bn worth of exports sold by UK to EU each week
- ▶ UK accounts for 16% of EU exports (US 15%, China 8%)
- ▶ **UK trade with EU accounts for 12% of UK GDP; EU trade with UK accounts for 2% of EU GDP.**

# Trade Risk?

- ▶ Uncertainty
- ▶ Around 50% of trade is at stake
- ▶ No guarantee of what post exit trade deals would look like
- ▶ Trade deficits with countries like China, Norway, Japan and Canada could actually get worse
- ▶ Certain sectors especially at risk (auto, financial services)
- ▶ Power to cut trade deals with rest of world stronger by being part of EU? President Obama: *“our focus is negotiating on a trade deal with a big bloc like the EU”*
- ▶ IMF warning during referendum campaigning



# Trading options outside the EU?

- ▶ Norway. UK joins EEA, giving access to single market in return for a 'price': a financial contribution + acceptance of EU regulations if we want to sell into EU + free lab mobility
- ▶ Switzerland. UK negotiates trade deals on a sector by sector basis. Financial contribution + lab mobility. Free Trade Agreement with EU with better access for financial services?
- ▶ Turkey. UK enters customs union with EU, allowing access to free market in manufactured goods.
- ▶ Unilateral approach: UK relies on membership of WTO.

# Less than free trade?

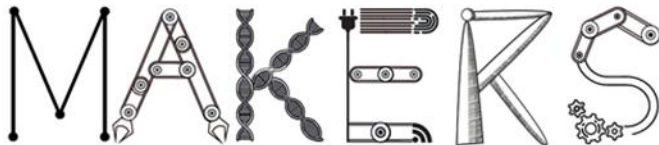
- ▶ Outcome of negotiations difficult to predict.
- ▶ EEA solution? Implies de-facto EU membership without ability to shape EU policies: acceptable?
- ▶ Possible that trade relations will be less free than now (i.e. can't actually do better than free trade!)
- ▶ → implies that there will be changes in the trade relationship between the UK and the EU and also be impacts on investment?
- ▶ *Next slides from Edgar Morgenroth at ESRI, Ireland*

## → Jobs?

- ▶ Claims over jobs should come with a health warning...
- ▶ *Leave*: jobs boom as firms are freed from EU regulations and red tape with small-and medium-sized companies who don't trade with the EU benefiting the most.
- ▶ *Remain*: Millions of jobs would be lost as global manufacturers moved to EU countries. Car industry and financial services especially at risk?
- ▶ *"The success of the UK financial services industry is to a large extent built on EU Internal Market legislation. To abandon this for some untried, unknown and unpredictable alternative would carry very significant risks,"* (Clifford Chance in a report by think tank TheCityUK).

## → Jobs?

- ▶ Are 3 million jobs at risk if we leave? Number of jobs related to trade with EU not the same as saying 3m jobs are dependent on EU membership
- ▶ Opportunity to deregulate the economy? Majority of laws would probably stay the same. UK has gone further in some areas, such as on environmental policy. + *UN Climate Change Treaty signed in Paris recently.*





# 3 Regulation

- ▶ EU has power to regulate in a number of areas that affect *business*: Product specifications; Competition; Employment terms; Health and Safety; Consumer Protection.
- ▶ BCC (2010): annual cost to business of **£7.6bn** but this is NOT the same as the economic cost to the UK as a whole as there are **offsetting benefits**; eg for employees and consumers
- ▶ Open Europe: Benefit-cost ratio of EU regs is 1.02 (UK regs 2.35)
- ▶ EEA members accept vast bulk of EU regulations
- ▶ Swiss Model?
- ▶ Trade off between national sovereignty and the sort of integration and harmonisation necessary to achieve free trade

## Martin Wolf, in the FT...

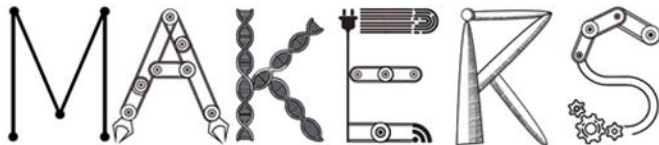
- ▶ “Analyses by the OECD consistently show that *the UK economy is among the least regulated of all its members. The strong performance of the UK’s labour market supports this conclusion ...*
- ▶ “Nobody can credibly argue that EU membership has been a significant obstacle to UK prosperity. The main obstacles — poor education and low investment, for example — are homegrown.
- ▶ “It is conceivable that the EU would become a significant obstacle in future. In that case, the UK should leave. But it is vastly premature to do so now.

## 4 Immigration

- ▶ *Leave:* Britain would regain control of its borders. UKIP wants to see a work permit system introduced, so that EU nationals would face the same visa restrictions as those from outside the EU, which it says would reduce migration numbers.
- ▶ *Remain:* Britain may have to allow free movement of EU migrants as the price of being allowed access to the Single Market. Immigration from the rest of the EU has been good for Britain's economy. The UK's growth forecasts are based, in part, on continued levels of net migration.

# 5 Fiscal consequences – the EU budget

- ▶ *Leave:* UK would save £billions in membership fees, and end "hidden tariff" paid by UK taxpayers when goods are exported to the EU, caused by red tape, waste, fraud and other factors.
- ▶ *Remain:* UK's contribution to the EU budget is a drop in the ocean compared with the benefits to business of being in the single market.

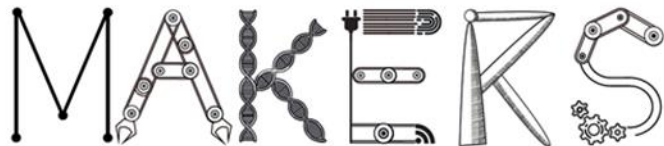


# 5 Fiscal consequences – the EU budget

- ▶ Leave: cost to UK of EU contributions is **£350m a week**
- ▶ This is the gross figure of contributions, or **£18bn a year**
- ▶ BUT need to add in rebate (£5bn) and receipts (£4.5bn)
- ▶ That gives a net cost of **£8.5bn or £160m a week**
- ▶ Norway and Switzerland both pay around 1/3<sup>rd</sup> per capita figure the UK does just to maintain access to the Single Market.
- ▶ UK would have to do so as well?
- ▶ *The NAO uses a different formula (includes EU money paid directly to private sector companies and universities to fund research): over the EU's financial year, puts UK's net contribution for 2014 at £5.7bn.*

# Case Study: UK Auto

- ▶ Single Market
- ▶ Shaping Regulations
- ▶ International Trade Deals
- ▶ Accessing skilled workers
- ▶ R&D funding



# Impact and some immediate priorities for UK auto

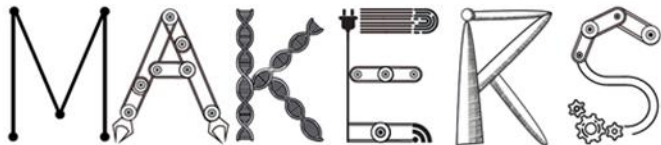
- ▶ Main impact of a Brexit on UK industry could be felt through four channels: investment delays, shifting cost bases, export disruption and public funding cuts

Need:

- ▶ Rapid progress on trade deal with the EU
- ▶ Being able to hire skilled workers from EU
- ▶ An industrial policy for auto

# Leave's incompatible Big Asks...

- ▶ A Free Trade Agreement for Goods and Services
- ▶ A Free Trade Agreement for Capital
- ▶ Restrictions on Labour Migration
- ▶ No EU budget payment
- ▶ Free from EU regulation on goods, labour and capital...





# Thanks for listening

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