

Brexit Through the Eyes of an Economist

Belarus Research and Outreach Centre

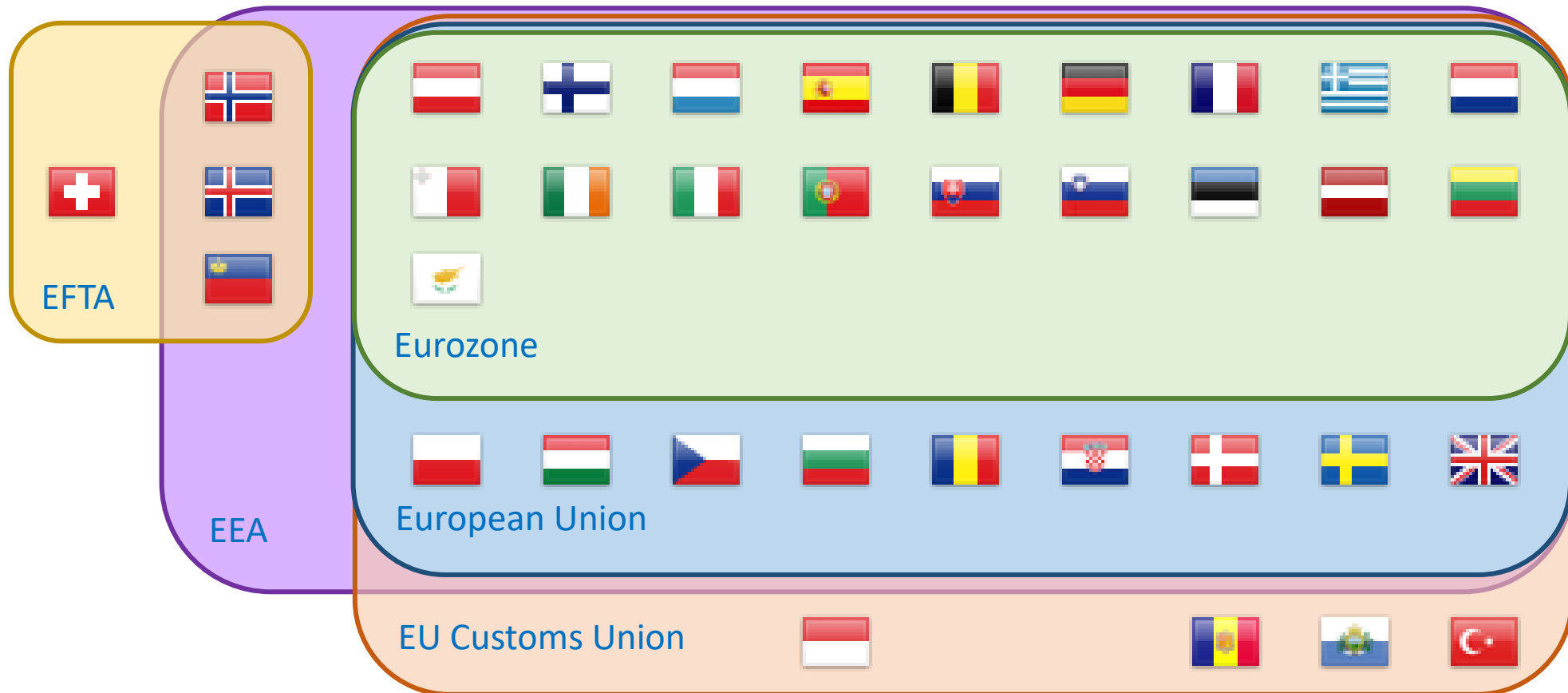
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Outline

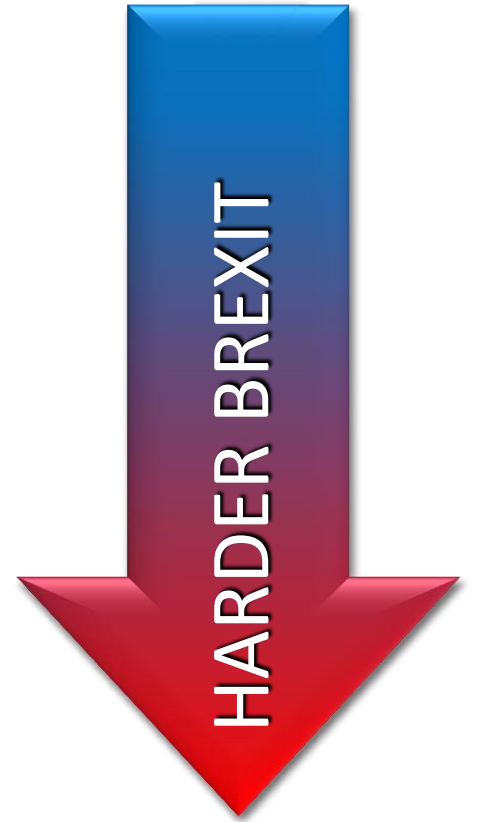
- What?
- Who?
- Why?
- How?

Levels of European integration



Brexit options from “soft” to “hard”

- Continued EU membership
- Joining the European Economic Area
- PTA with EU
 - Customs union
 - FTA
- Shared WTO membership



EU

- Full access to **Single Market**
 - Budget contributions
- Four Freedoms
 - Goods
 - Services
 - Capital
 - Workers
- Common external tariff
 - advantage of single customs inspection
 - national treatment of all goods
 - part of 36 FTAs between EU and 3rd countries (over 60 countries)

EEA

- Based on same Four Freedoms as EU
 - *near-full* access to Single Market
 - contribute to European Single Market
- Countries have to adopt part of EU Law
 - influence only through “decision-shaping”
- Agriculture and fisheries not covered by the EEA
 - face tariffs or other trade barriers

CU vs FTA

- CU sets a **common external tariff**
 - requires agreement among governments
 - loss of national sovereignty in trade
 - advantage of single customs inspection
- FTA members retain own external tariffs
 - national sovereignty not infringed
 - customs determine where goods are made
 - duty-free status restricted to goods manufactured in FTA
 - requires **Rules of Origin**

Issues and arguments before the referendum

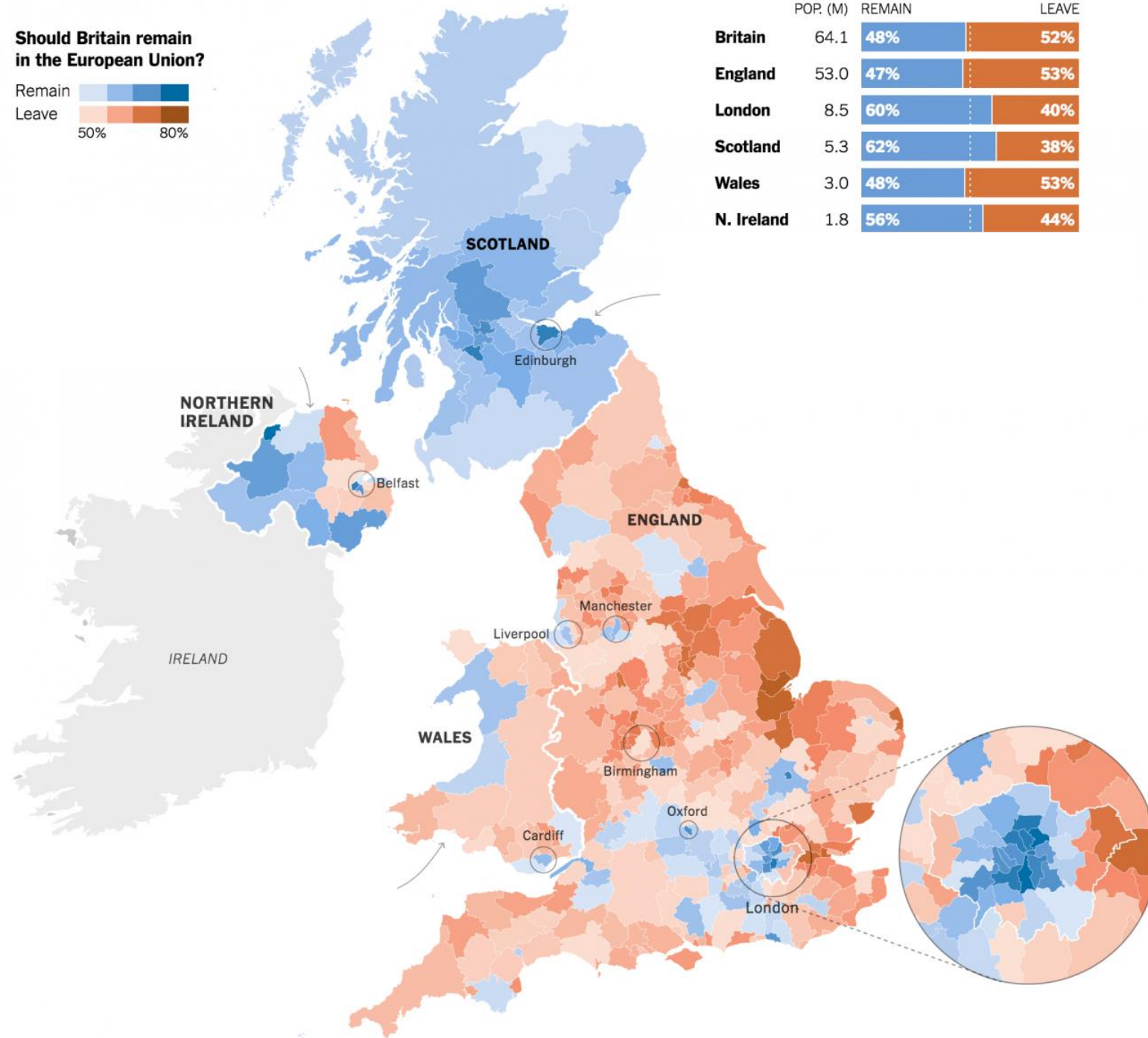
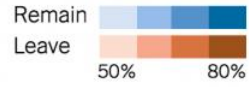
Leave

- *Migration*
- Sovereignty
- EU budget contributions
- Regulation/Trade
- European Court of Justice
- Fishing rights

Remain

- *Trade*
- Migration
- Productivity
- Foreign investment
- Post-war peace in Europe
- European identity

Should Britain remain in the European Union?



	POP. (M)	REMAIN	LEAVE
Britain	64.1	48%	52%
England	53.0	47%	53%
London	8.5	60%	40%
Scotland	5.3	62%	38%
Wales	3.0	48%	53%
N. Ireland	1.8	56%	44%

Who voted to Leave

Leave

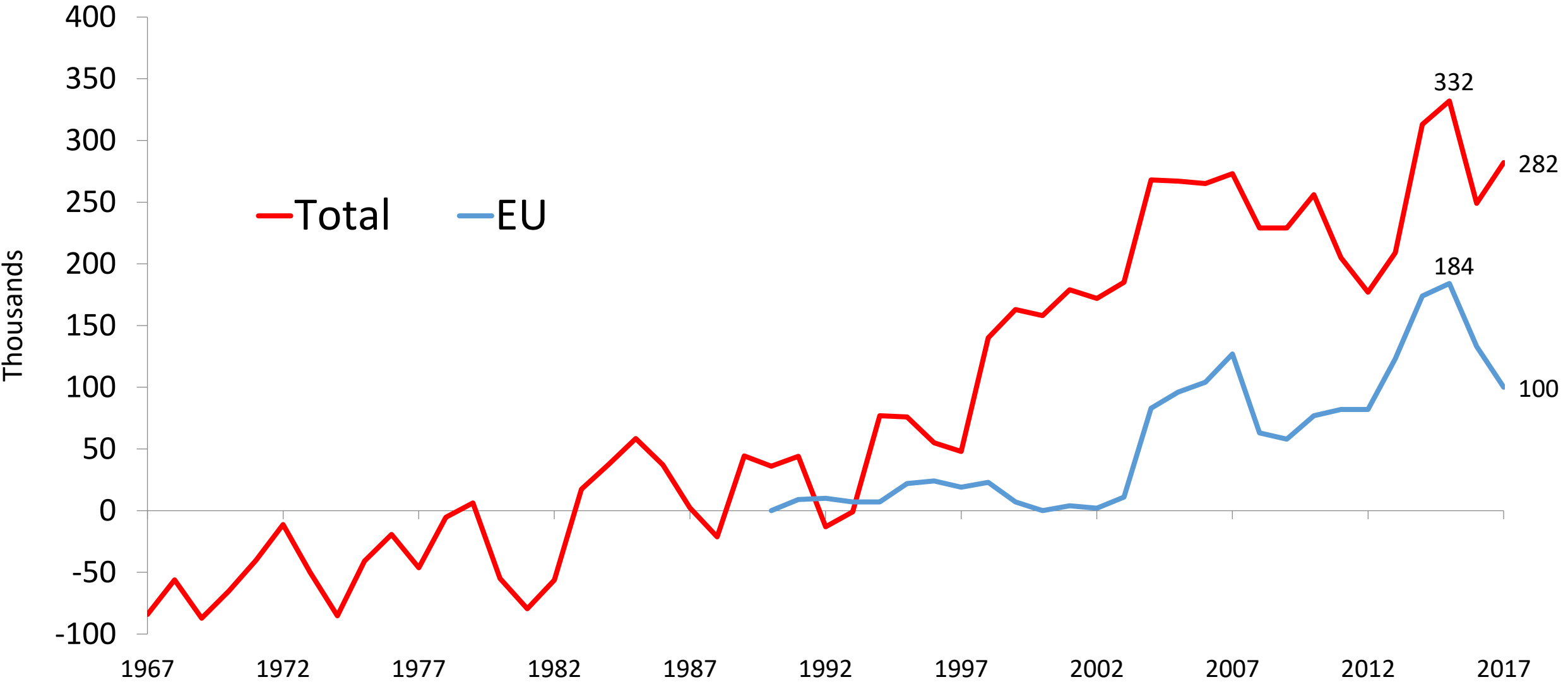
- Share of population 60+ (0.3)
- Share of white population (0.2)
- Migrant share (0.3)
- Fall in employment in traditional and public sectors (0.2)

Remain

- Share of graduates (1.1)
- Share of students (0.5)
- Scotland (16)

Migration

UK net migration



Immigration effects in the UK

- Labour market effects
 - immigrants do not have strong effect on labour market outcomes of native workers
 - no significant effect of A8 migrants on native's wages and unemployment – Lemos and Portes (2008)
 - UK native and foreign born workers may be imperfect substitutes – Manacorda et al (2012)
 - immigrant-native ratio has a significant but small negative impact on the average occupational wage rates in the region. The biggest (but still small) effect is in the semi/unskilled services sector – Nickel and Saleheen (2008, 2015)
 - no effect of increase in immigration on the unemployment rate of natives even in the low-skilled segment – Wadsworth (2015)
- Fiscal effects
 - net contribution of immigrants into the public purse is positive
 - net contribution of foreigners is positive and is greater than that of UK-born – Sriskandarajah et al (2005)
 - Gott and Johnson (2002)
 - fiscal impact of A8 immigrants is positive – Dustmann et al. (2010)
 - net fiscal contribution of the different population groups for each year between 1995 and 2011. Recent EEA immigrants contributed to the fiscal system 34% more than they took out – Dustmann and Fratinni (2013)

Employment rates/qualification distribution

Immigrant workers display a higher qualification compared to that of natives. NewEU has the highest and non-EU the lowest employment rate

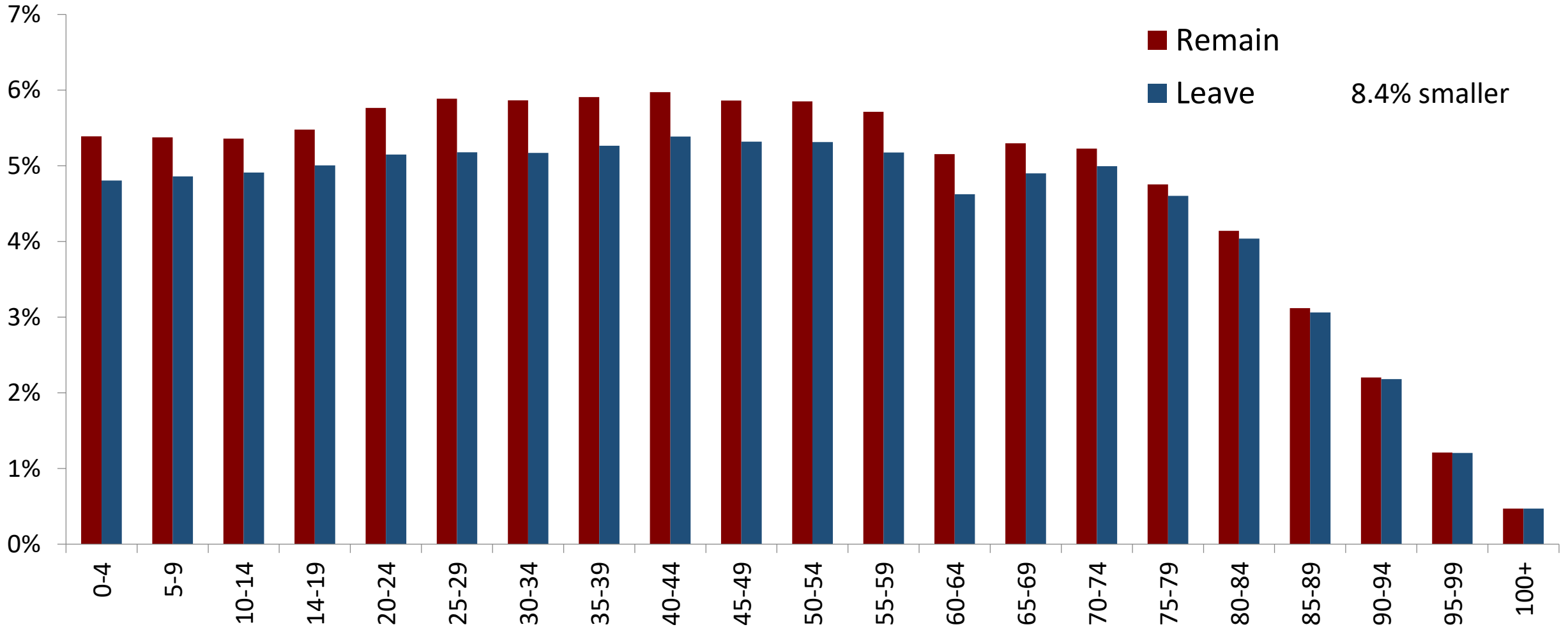
	UK	EU15	New EU	non-EU
	83%	2%	3%	11%
Employment rate	77%	79%	82%	68%
High qualification	25%	51%	38%	49%
Medium qualification	29%	29%	51%	30%
Low qualification	46%	19%	11%	21%

Source: own calculations, APS

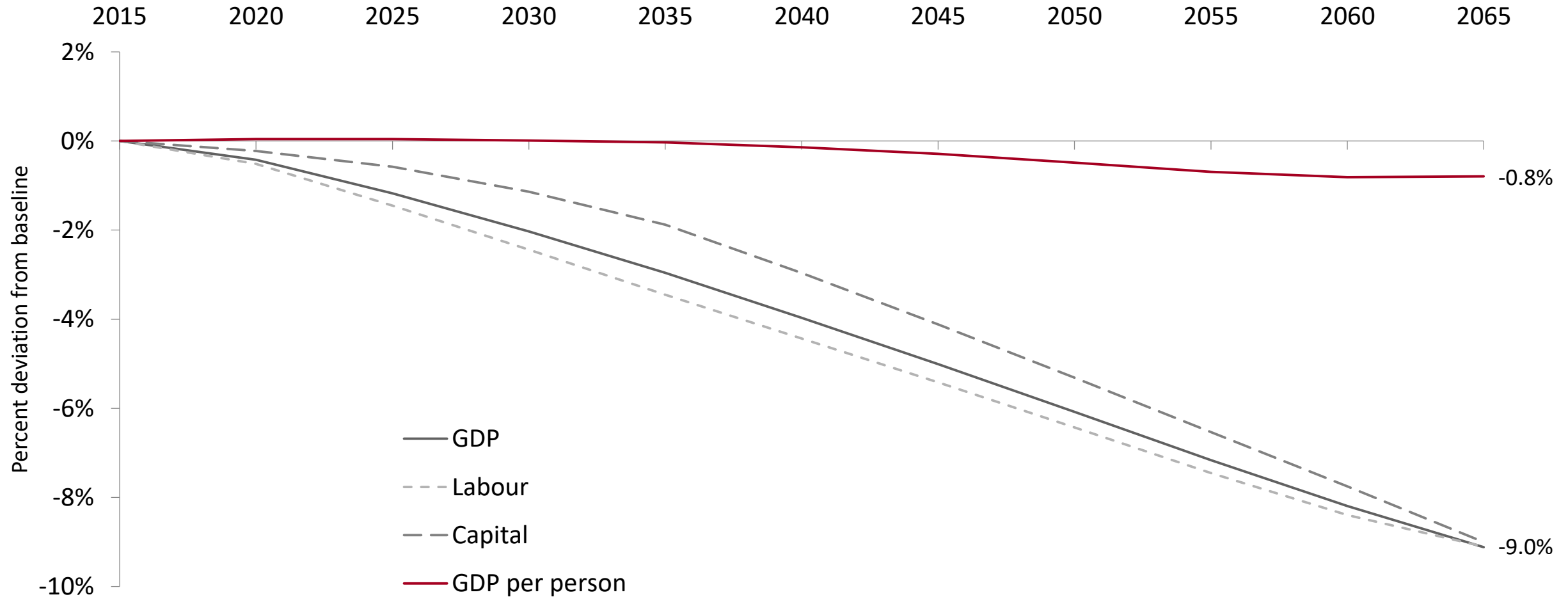
Migration scenarios

	Scenario	
	Remain	Leave
UK	-70	-70
EU15	59	20
New EU	82	27
Non-EU	114	114
Total	185	92

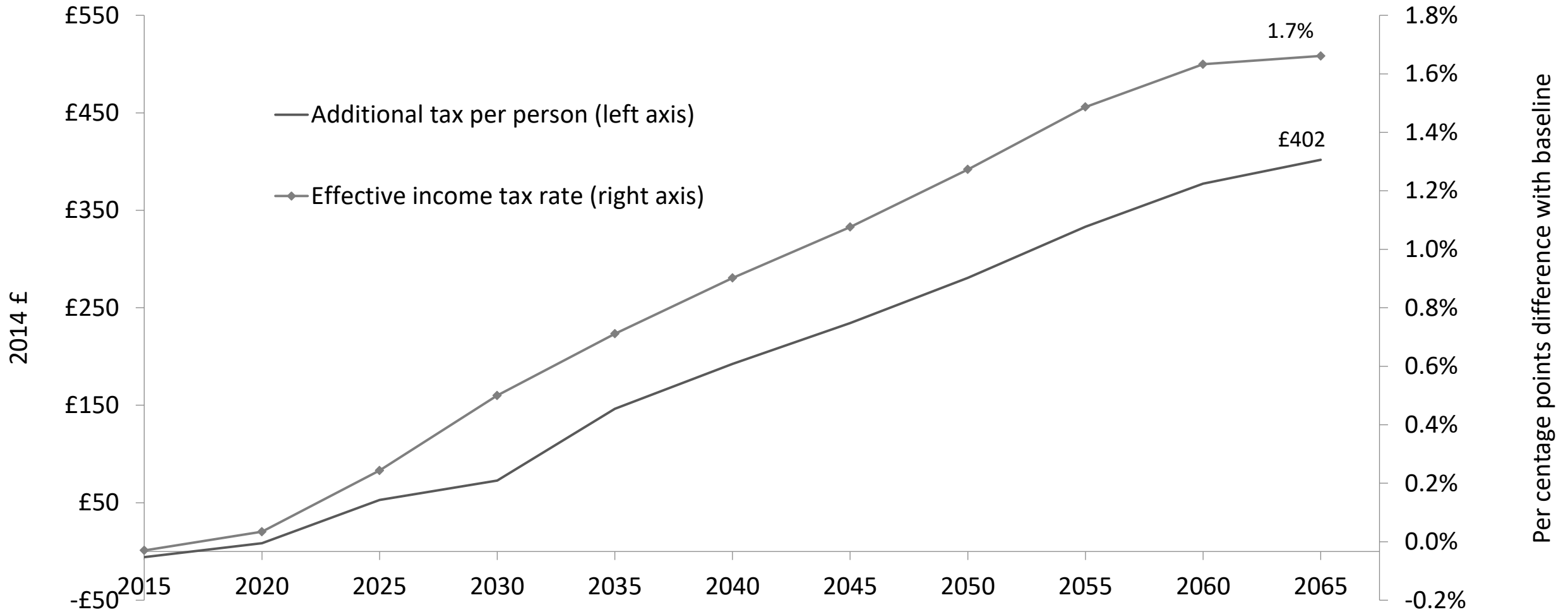
Population age structure in 2065



Output and factors of production



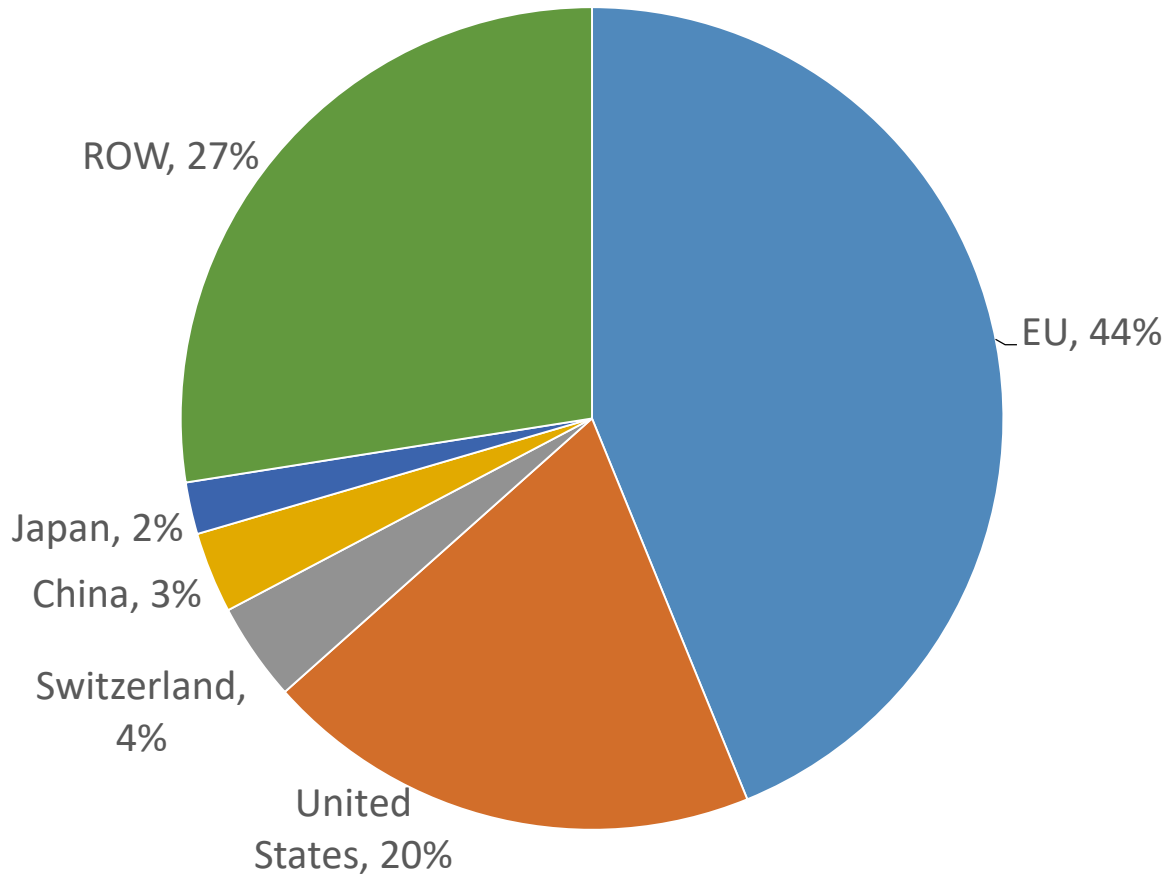
Additional taxes per person, 2014 £



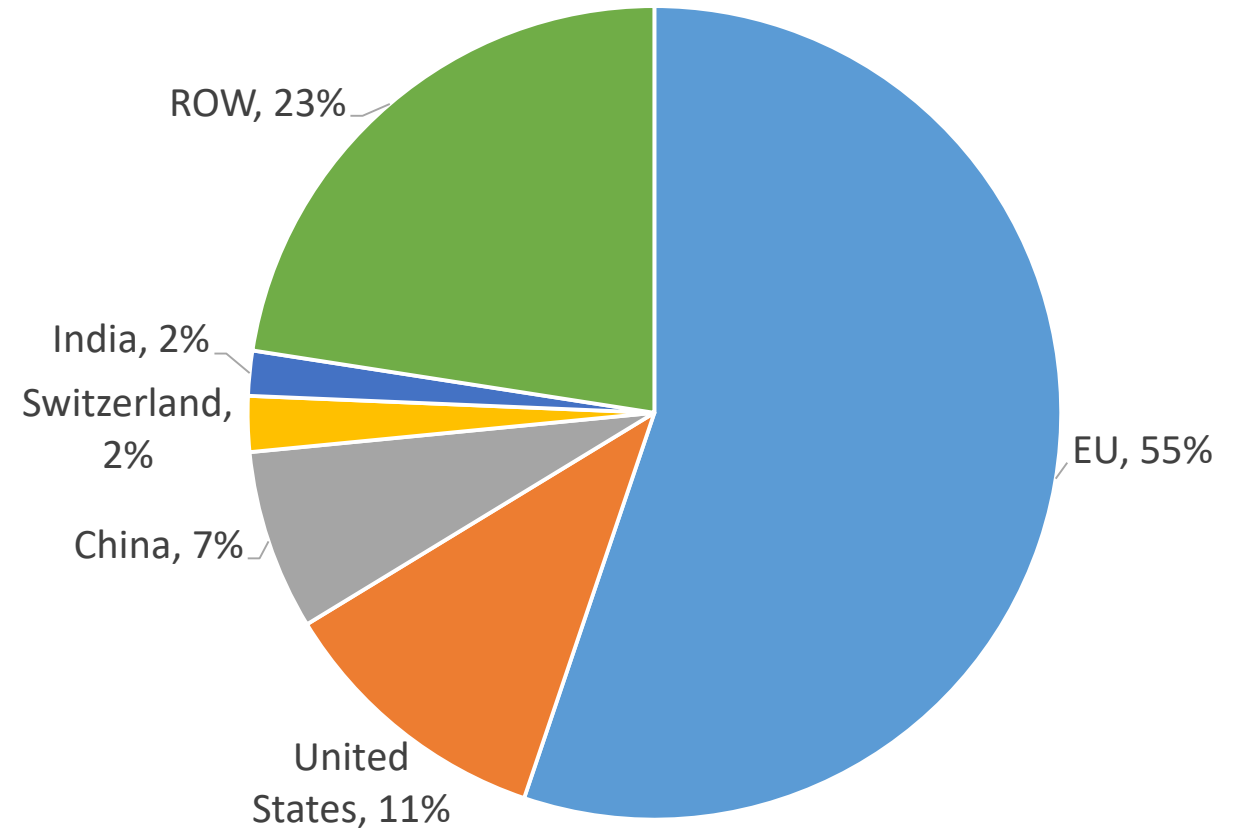
Trade

UK international trade structure, 2015

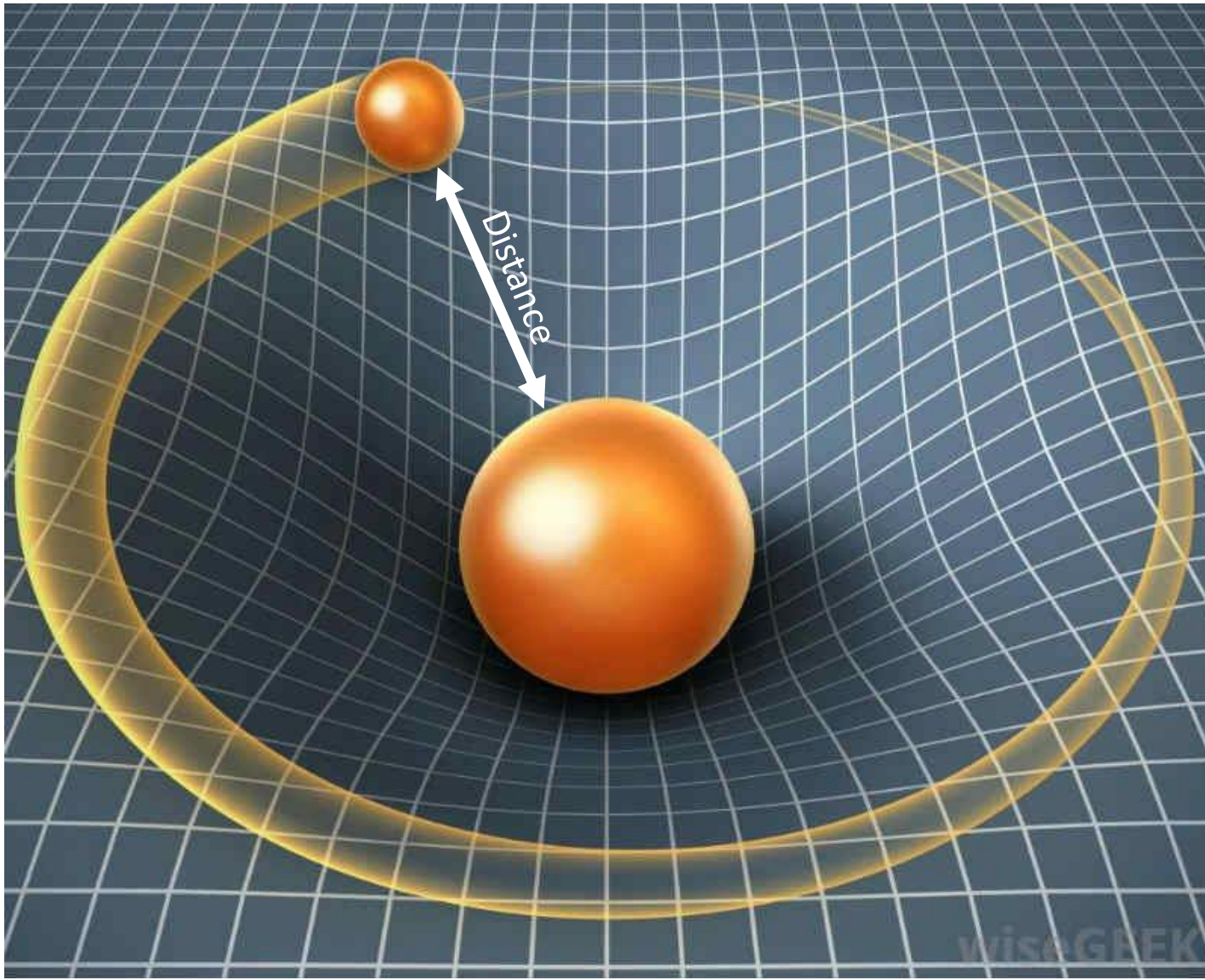
Exports



Imports



Gravity



- Bilateral trade flows depend on
 - economic sizes (often using GDP measurements)
 - distance between two countries
 - other factors (border, language, common legal system, common currency, colonial history, etc.)

Impact of leaving the EU on bilateral trade

	Goods		Services		
	Baier et al. (2008)	Ebell (2016)	v d Marel and Shepherd (2013)	Ceglowski (2006)	Ebell (2016)
EEA	25% – 38%		-40%	19% – 28%	
FTA	25% – 38%	-40%	-40%	45% – 54%	-63%
WTO	53%	-61%	-43%	63%	-63%

Comparison of Model-Based Forecasts of the Macroeconomic Effects of Brexit

Institution/Authors	OECD	CEP/LSE		HM Treasury		NIESR		Oxford Economics		PwC	
GDP	-5.1%	-6.3%	-9.5%	-6.2%	-7.5%	-2.1%	-3.2%	-2.0%	-2.7%	-1.2%	-3.5%
GDP cost per household	£3,200	£4,200	£6,400	£4,300	£5,200	£1,400	£2,200	£1,300	£1,800	£600	£1,800
Transmission Channels Accounted For											
Change in trade with EU	x	x	x	x	x	x	x	x	x	x	x
Productivity effect from trade	x	x	x	x	x			x	x		
Change in FDI	x		x	x	x	x	x	x	x	x	x
Productivity effect from FDI	x		x	x	x			x	x		
Reduced migration	x							x	x	x	x
Gain from deregulation	x							x	x	x	x
Lower contribution to EU budget	x	x	x	x	x	x	x	x	x	x	x
Model type	NiGEM	Reduced-Form Model		NiGEM		NiGEM		Structural Model		CGE model	

Government analysis

Multi-country CGE model

- Reduction in trade with the EU
 - Tariff barriers
 - Non-tariff barriers
- New trade deals with third countries
- Regulatory optimisation
- Migration

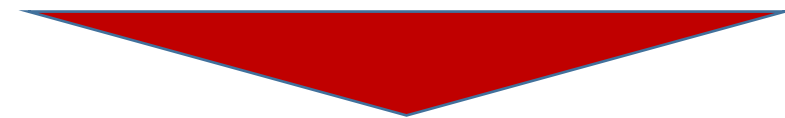
After 15 years

	EEA	FTA	WTO
GDP	-1.6% to -2.6%	-3.1% to 6.6%	-5.0% to 10.3%

Irish border. Why it is important?



- Very sensitive political situation (Good Friday Agreement)
- Close integration on all levels
- Tightly integrated supply chains



Irish border backstop –
an arrangement that will apply to the Irish border if a wider deal cannot keep it frictionless

Would this work?

EEA

No, because it requires **freedom of movement** and **budget contributions**

CU

No, because it prevents **trade deals** with other countries

CETA-type

No, because it means hard border in **Northern Ireland**

Chequers proposal

- Trade – EEA-type agreement for goods but not services
 - The UK will "maintain a common rulebook for all goods" with the EU after Brexit.
 - A treaty will be signed committing the UK to "continued harmonisation" with EU rules
- ECJ
 - While Britain is a separate legal jurisdiction after Brexit, the European Court of Justice would be supreme in interpreting the UK-EU goods rule book.
- Movement of people
 - No free movement of people.
 - A "mobility framework" will be set up to allow UK and EU citizens to travel to each other's territories, and apply for study and work.
- Border and customs
 - The UK wants a "facilitated customs arrangement" with the EU, which allows the UK to control tariffs and pursue an independent trade policy.
 - But in practice Britain also wants to continue "as if" it were within the EU customs territory and avoid the hard border in NI.

Timeline

Brexit negotiations

