

Who's affected by Brexit? How might different trade arrangements impact and different UK industries, regions and workers?

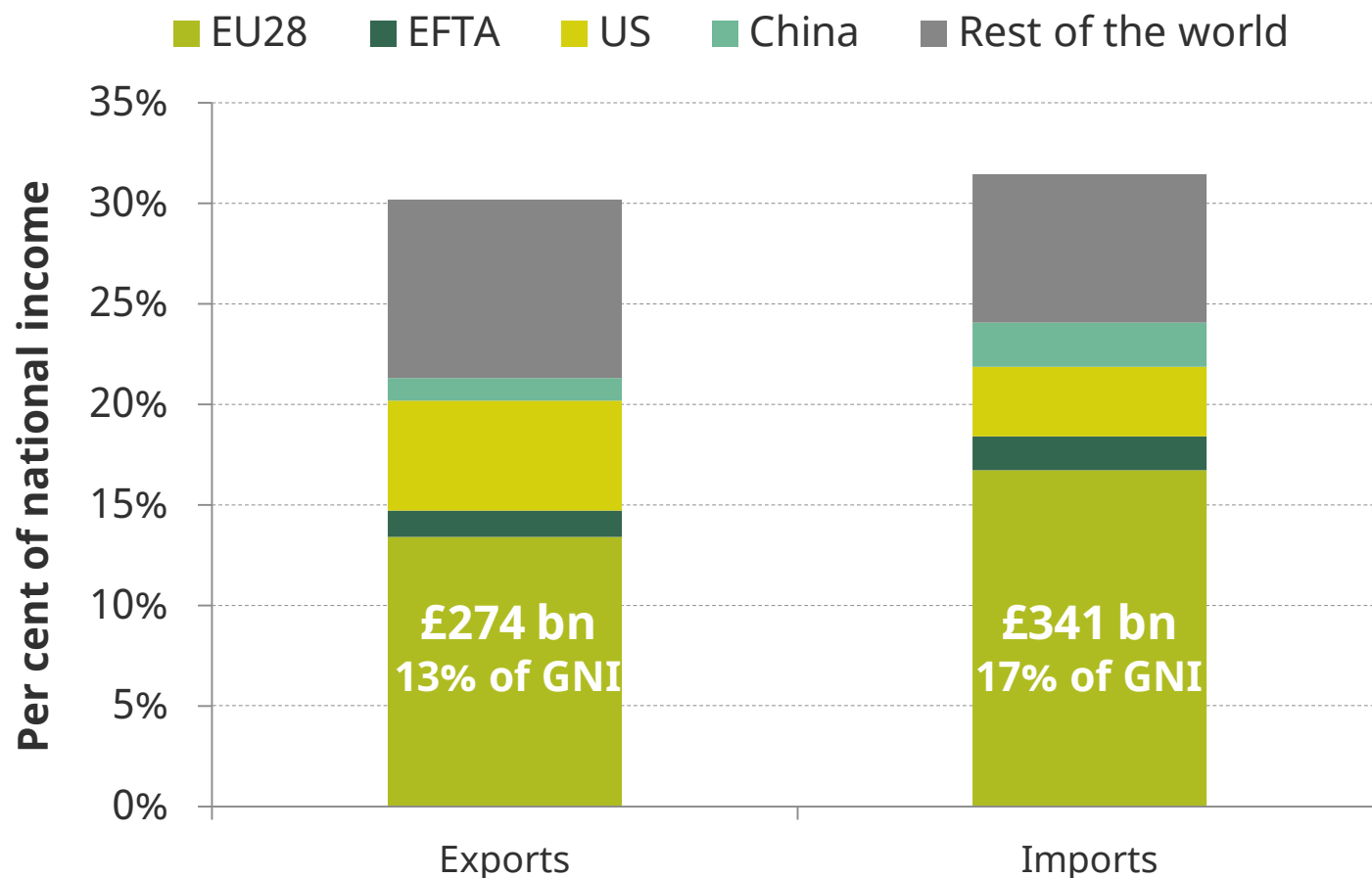
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Exposure to potential trade barriers between the UK and the EU

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EU is UK's most important trade partner



Source: Figure 1.1 of *The exposure of workers to potential trade barriers between the UK and the EU*

This presentation

Potential changes in trade barriers between the UK and the EU

Impacts of new trade barriers on industries

Exposure to negative impacts across

1. Workers
2. Regions

Focus on one particular aspect of Brexit: trade with the EU

- Examine impacts and mechanisms behind them in more detail
- Emphasis on *relative* impacts and how (un)certain they are
- Not providing “economic impact of Brexit” estimate

UK-EU trade barriers

Two broad categories of trade barriers

1. Tariff barriers: taxes levied on imports of goods
2. Non-tariff barriers: non-tax policy impediments to trade
 - Regulatory differences
 - Bureaucratic costs
 - Customs checks

UK-EU trade barriers: the status quo

Two broad categories of trade barriers

1. Tariff barriers: taxes levied on imports of goods
2. Non-tariff barriers: non-tax policy impediments to trade

The EU Customs Union

- No tariffs or customs checks on goods trade between member states
- Members apply common tariffs and checks to non-EU imports

The Single Market

- Rules to reduce non-tariff barriers
- e.g. Harmonisation of product standards

UK-EU trade barriers: government proposals

Intend to leave both the Customs Union and Single Market

‘The Chequers plan’:

- UK-EU trade to remain tariff-free
- UK sets own tariffs non-EU imports
- ‘Facilitated Customs Arrangement’ to avoid customs checks at borders
- ‘Common rulebook’ for manufactured goods and agri-food products

EU appears unwilling to accept current proposal

UK-EU trade barriers: potential changes

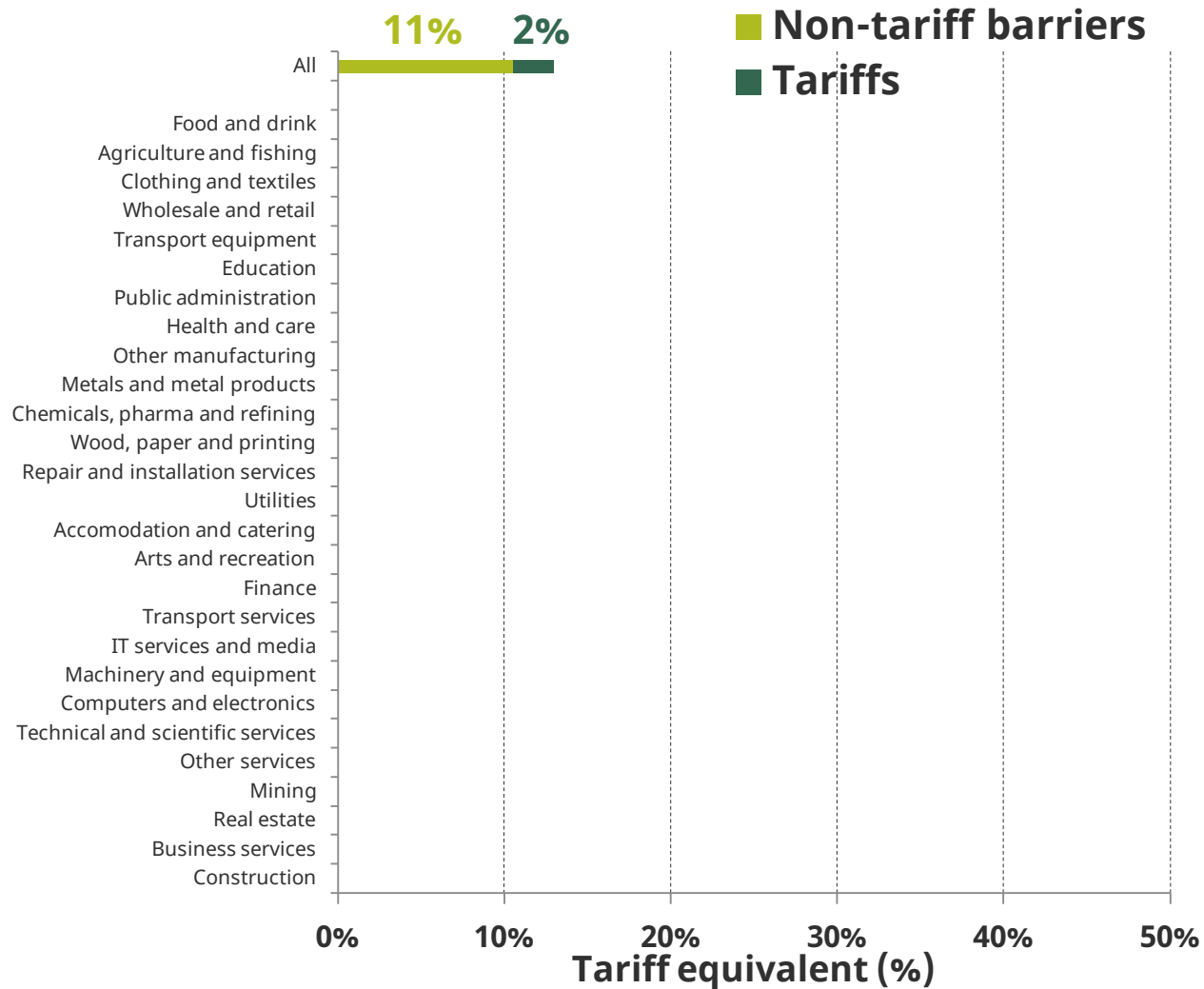
Consider three 'trade policy scenarios'

1. **'WTO rules'**: Default in absence of trade deal
 - UK and EU apply EU's World Trade Organisation MFN tariffs
 - Government's estimates of WTO non-tariff barriers
2. **Free-trade agreement (FTA)**: e.g. 'Canada option'
 - Zero tariffs
 - Government's estimates of FTA non-tariff barriers
3. **European Economic Area (EEA)**: e.g. 'Norway option'
 - Zero tariffs
 - Government's estimates of EEA non-tariff barriers

Hard to quantify likely magnitudes of non-tariff barriers

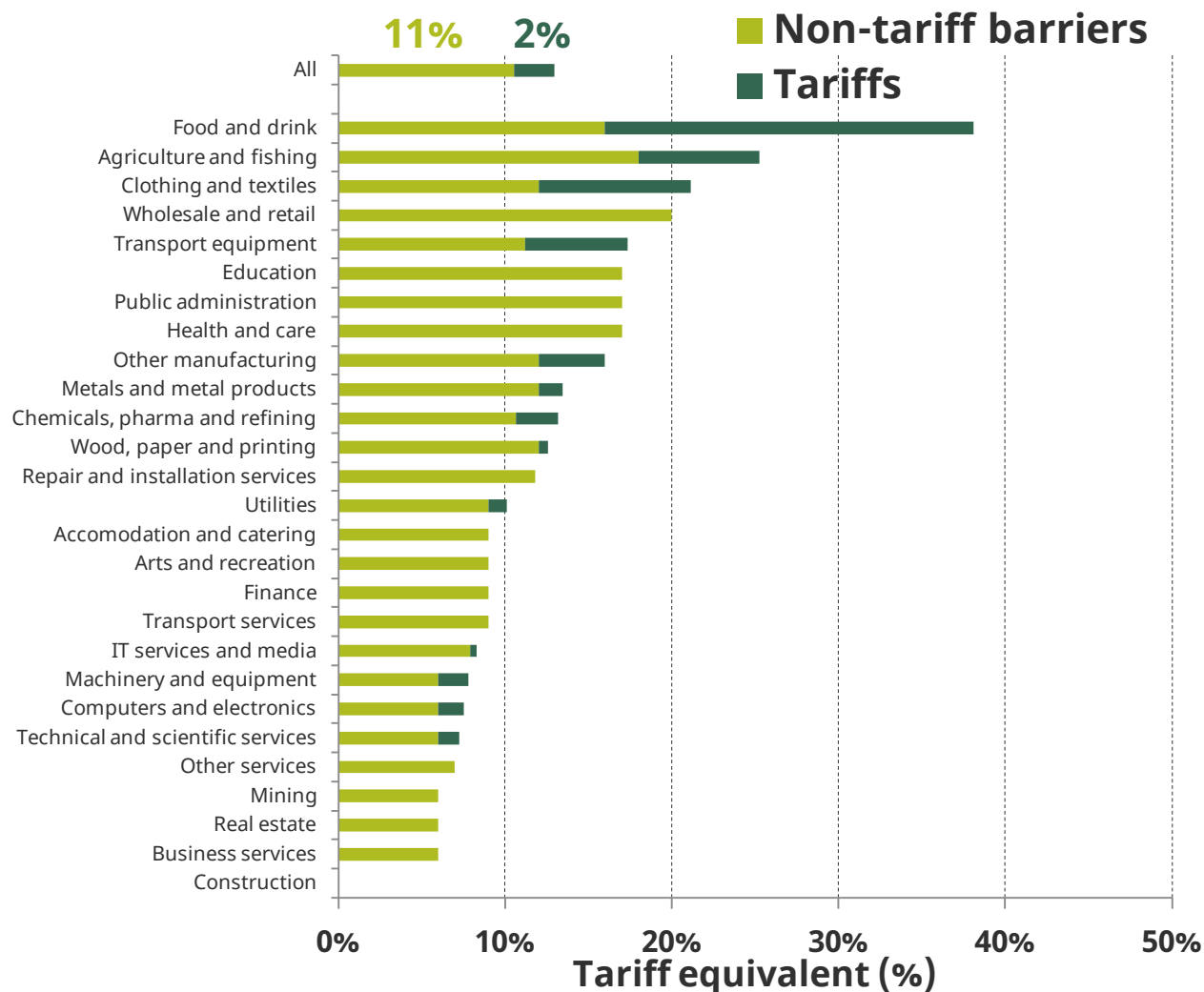
- Cost of non-tariff barriers for **finance sector** a key area of uncertainty

Estimated cost of trade barriers: 'WTO rules'



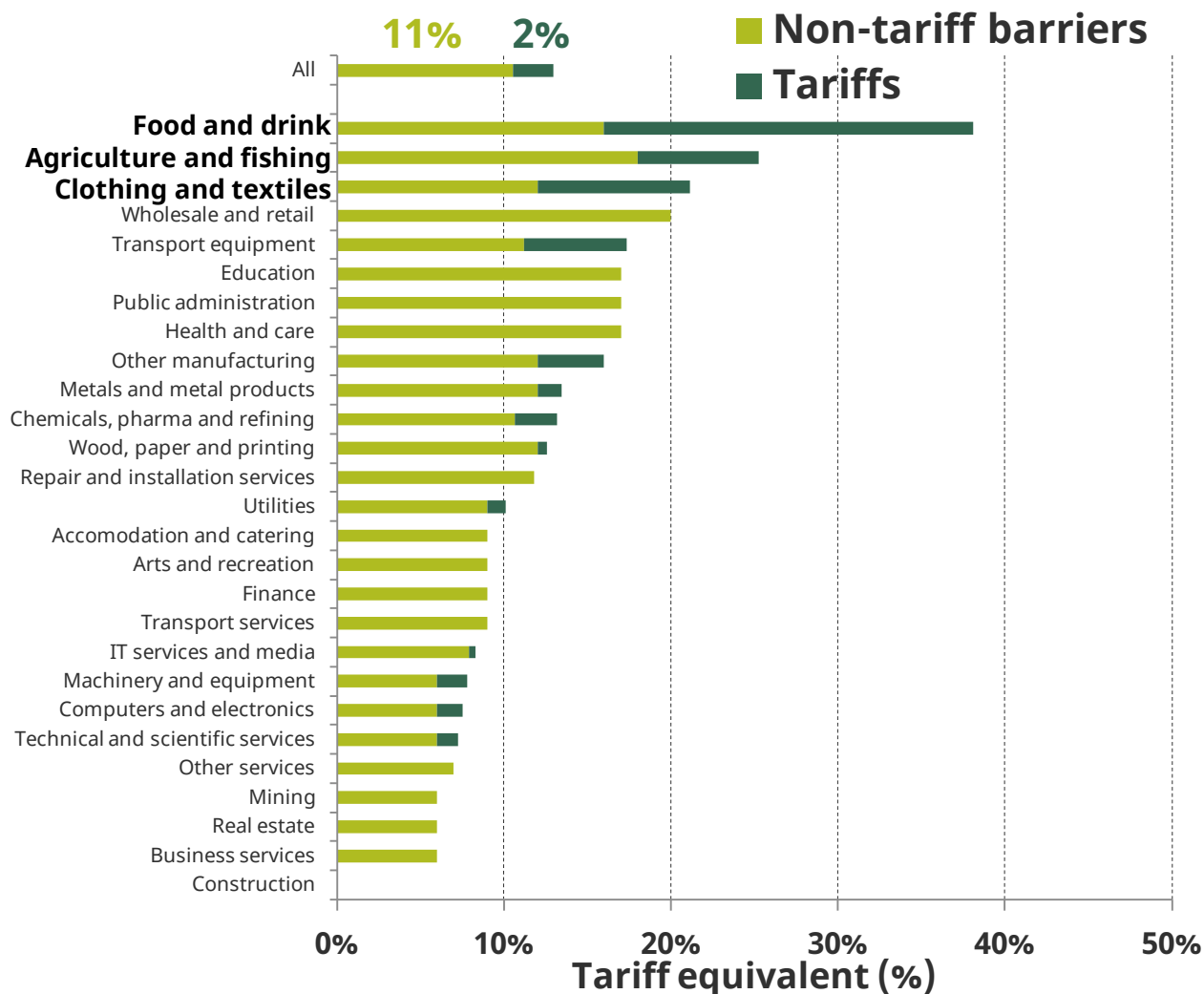
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Estimated cost of trade barriers: 'WTO rules'



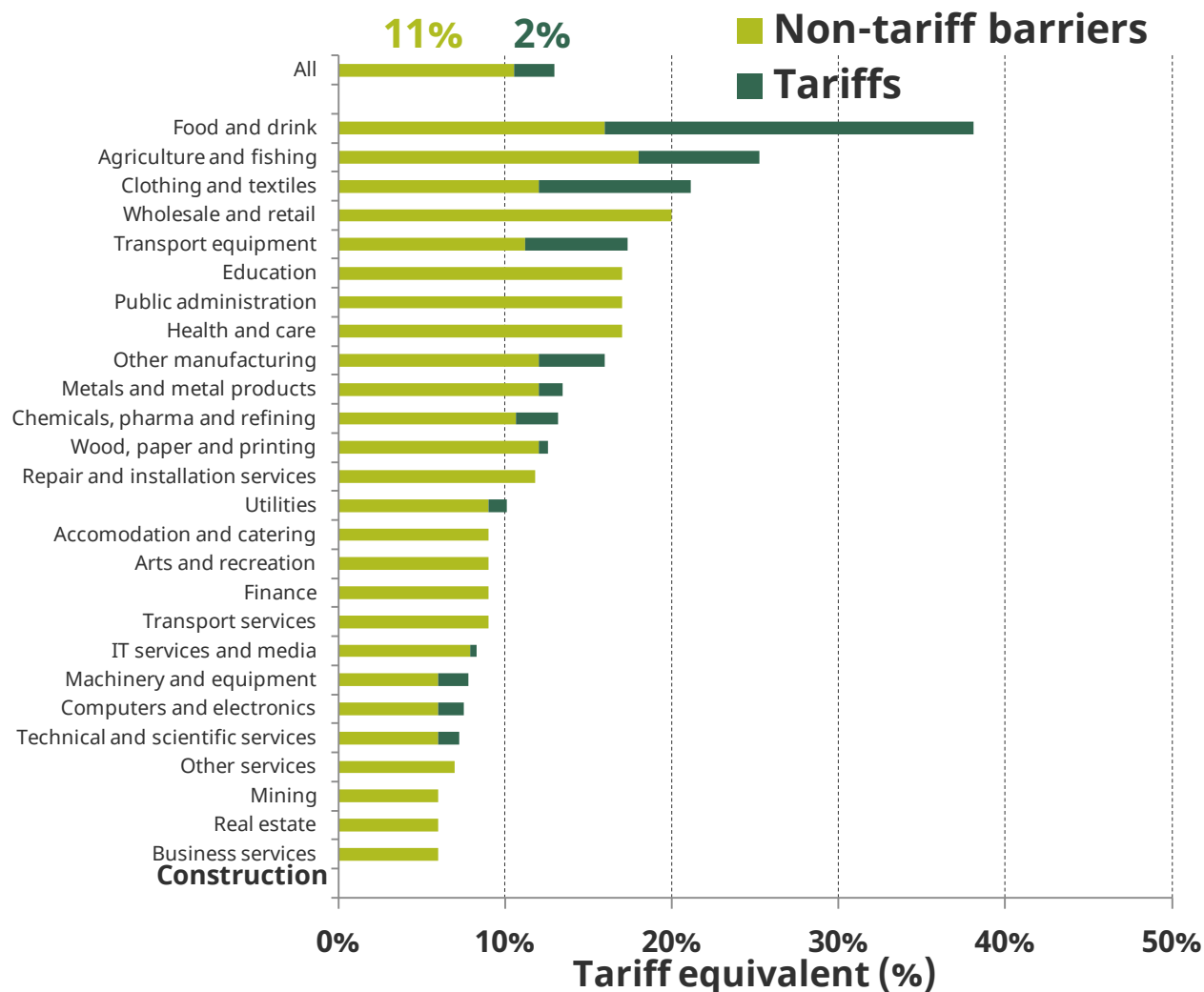
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Estimated cost of trade barriers: 'WTO rules'



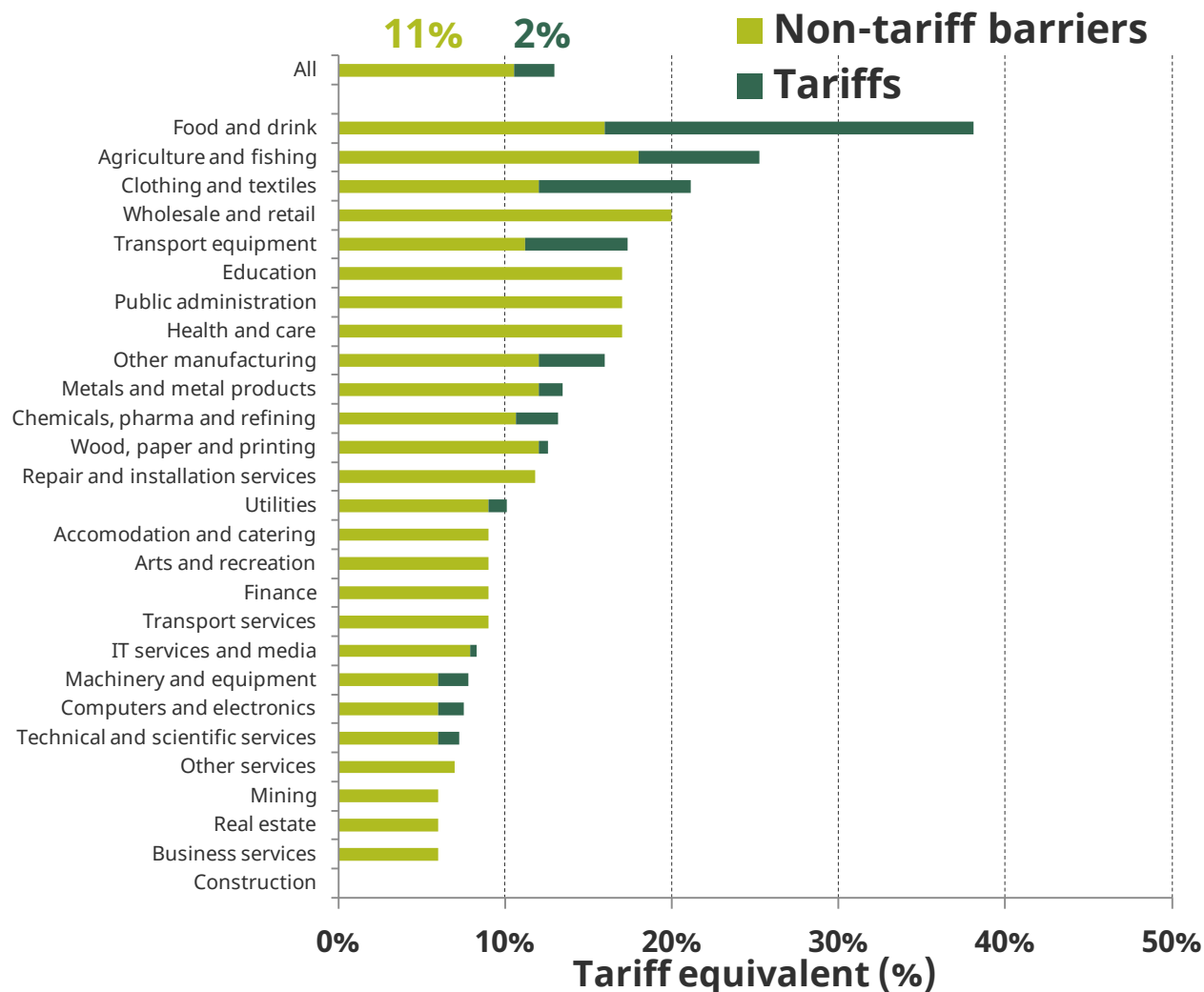
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Estimated cost of trade barriers: 'WTO rules'



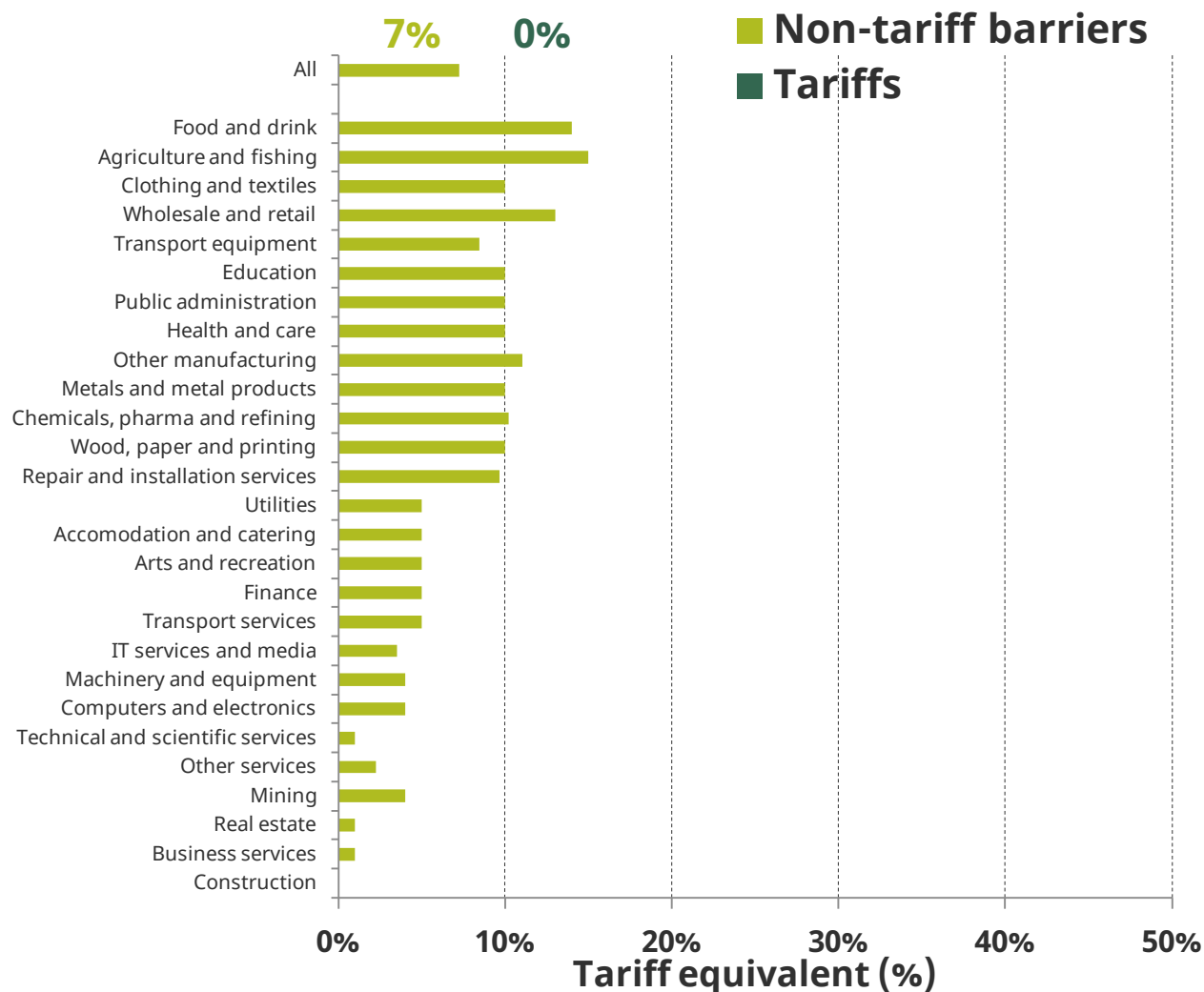
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Estimated cost of trade barriers: 'WTO rules'



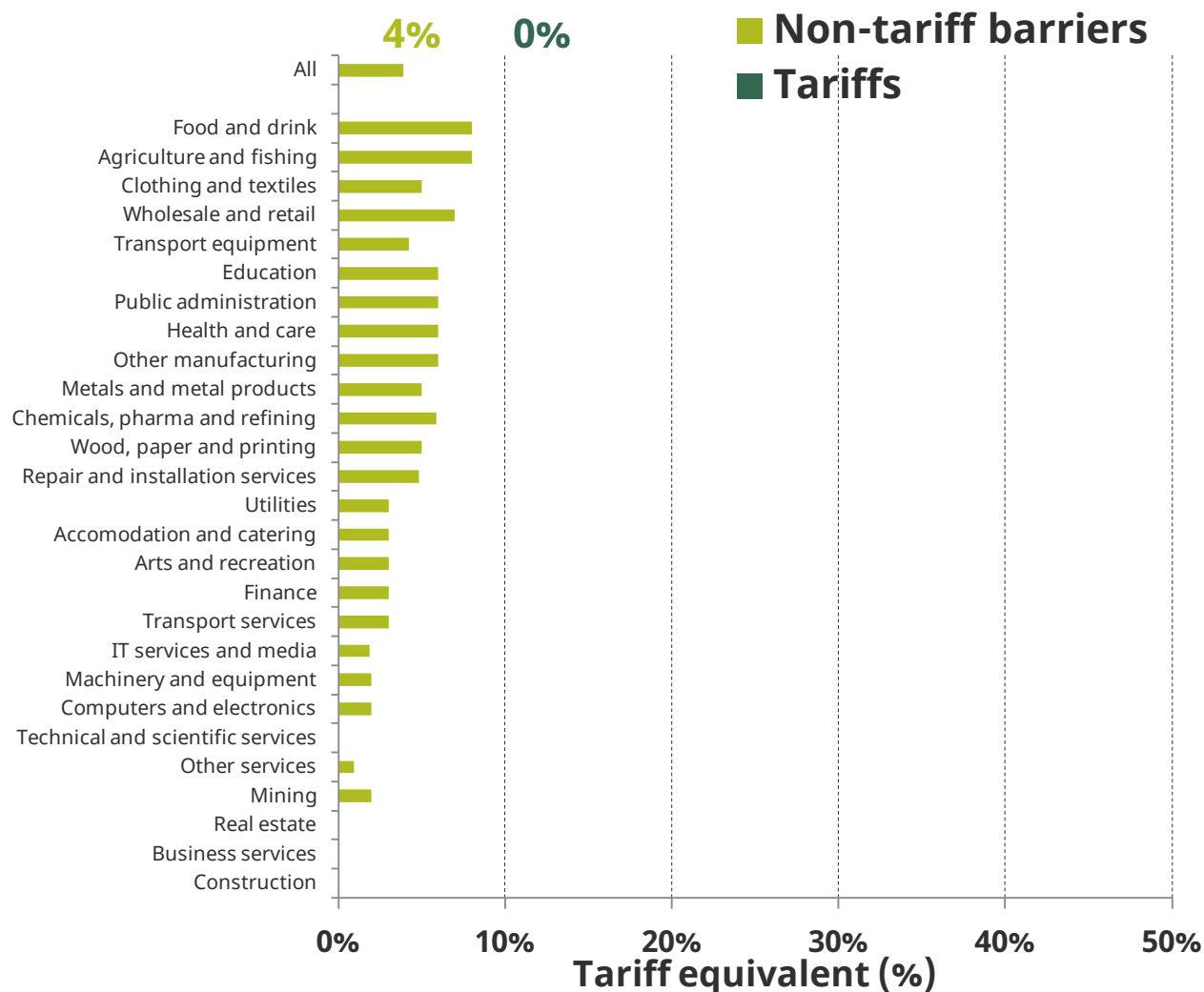
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Estimated cost of trade barriers: FTA



Source: Table Y.1 of *The exposure of workers to potential trade barriers between the UK and the EU*

Estimated cost of trade barriers: EEA



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Estimating impacts on industries

Increases in trade barriers will cause changes in demand

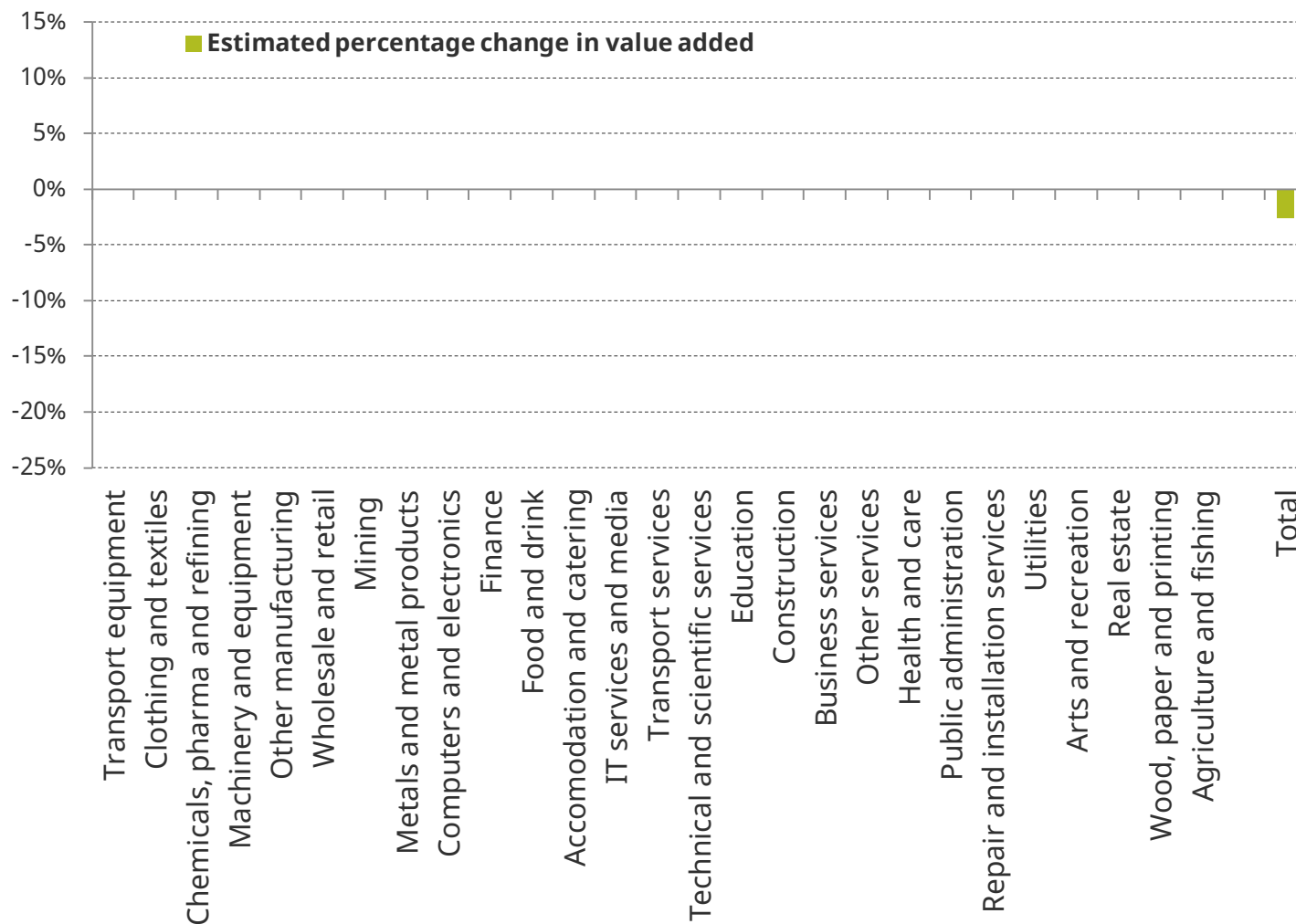
Calculate impact of these changes on industry *value added*

- Accounts for changes in cost of inputs and output price

Hypothetical scenario indicates which industries likely to be most affected

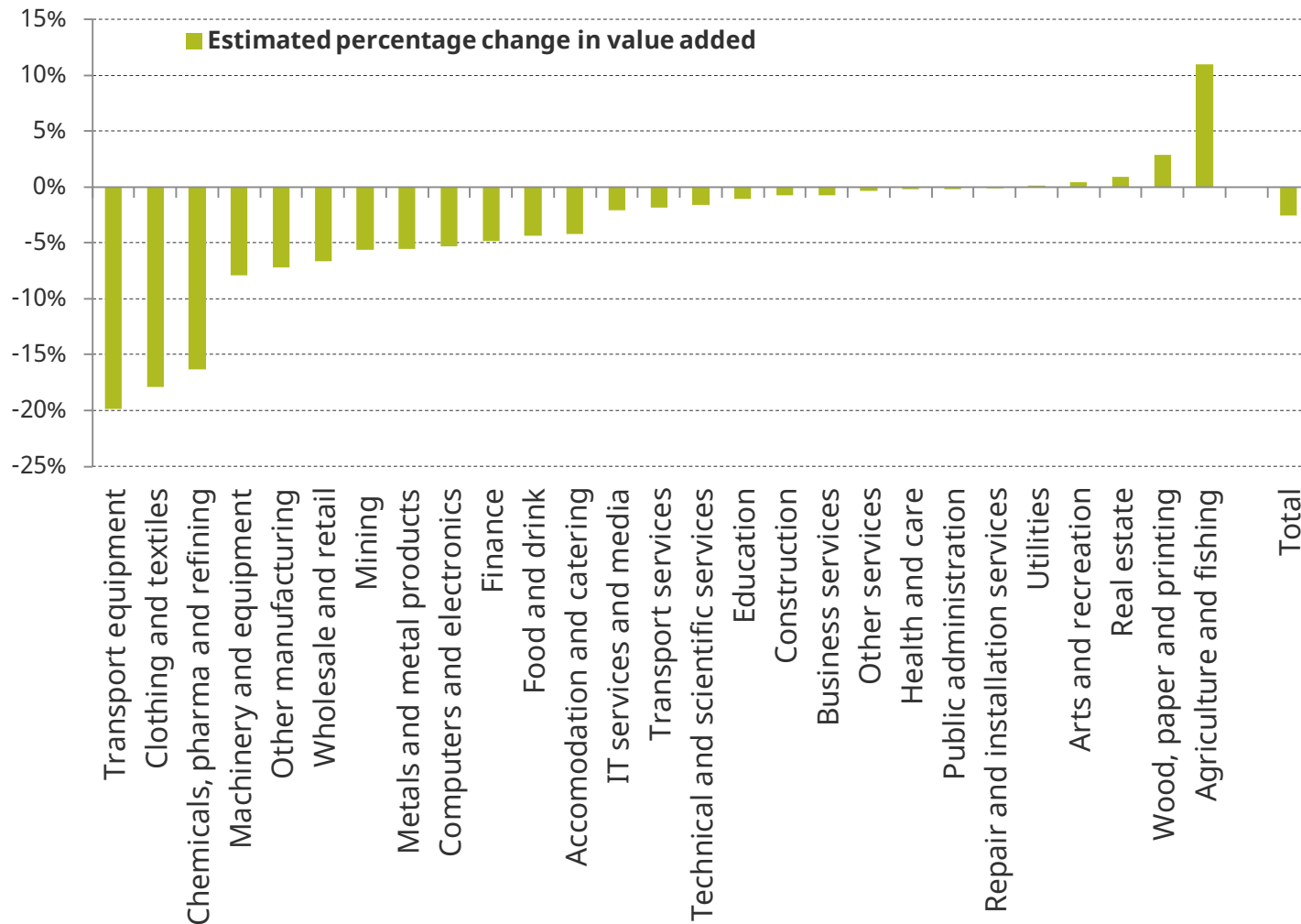
- Results are **not predictions** of actual changes in value added

Estimated impact of 'WTO rules' trade barriers



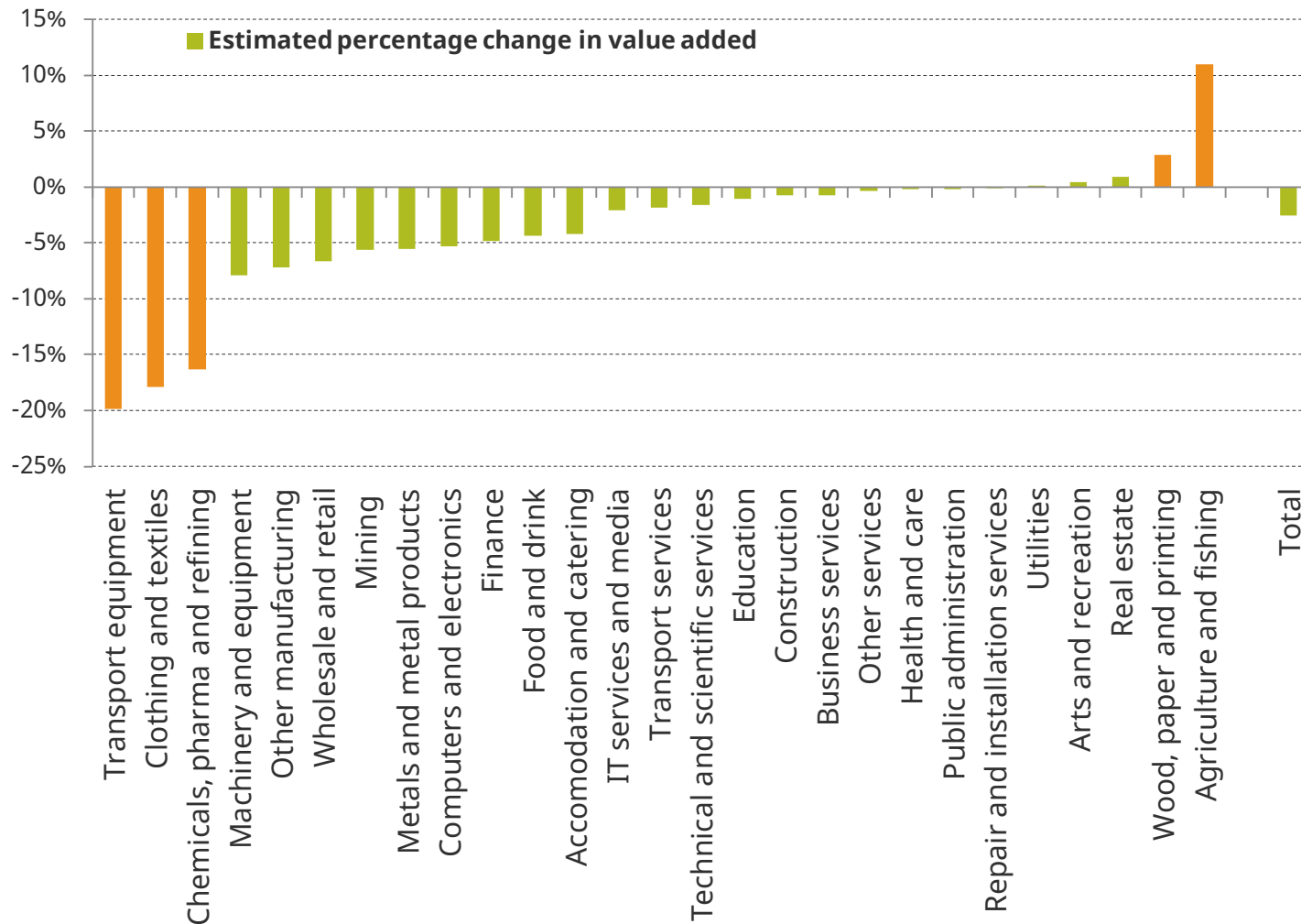
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Estimated impact of 'WTO rules' trade barriers Institute for Fiscal Studies



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Causes of impacts in specific industries

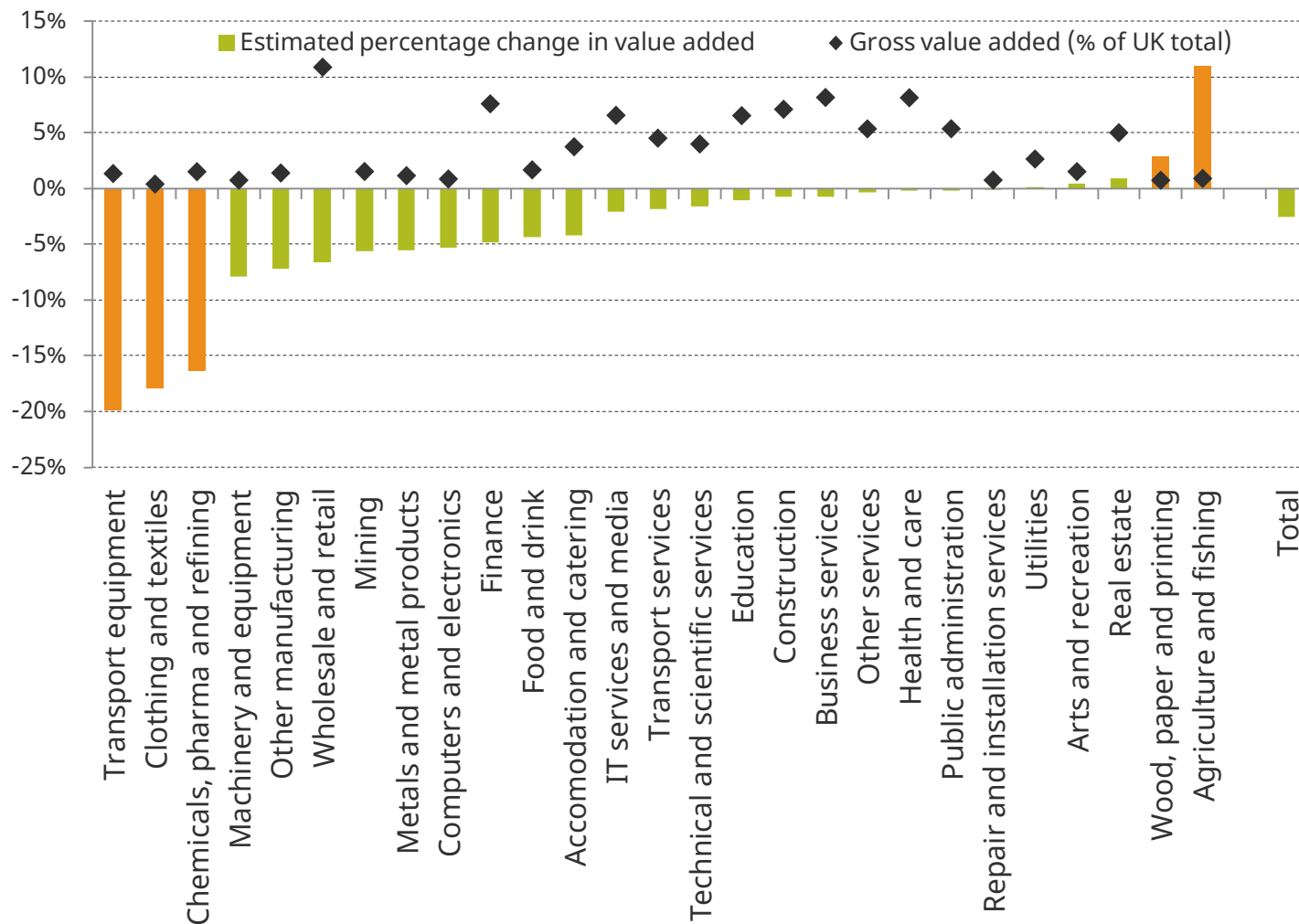
Transport equipment; Chemicals, pharmaceuticals & refining; Clothing and textiles

- Around 25-30% of intermediate inputs imported from EU
- Around 25-40% of output exported to EU
- Face relatively high trade barriers

Agriculture & fishing; Wood, paper & printing

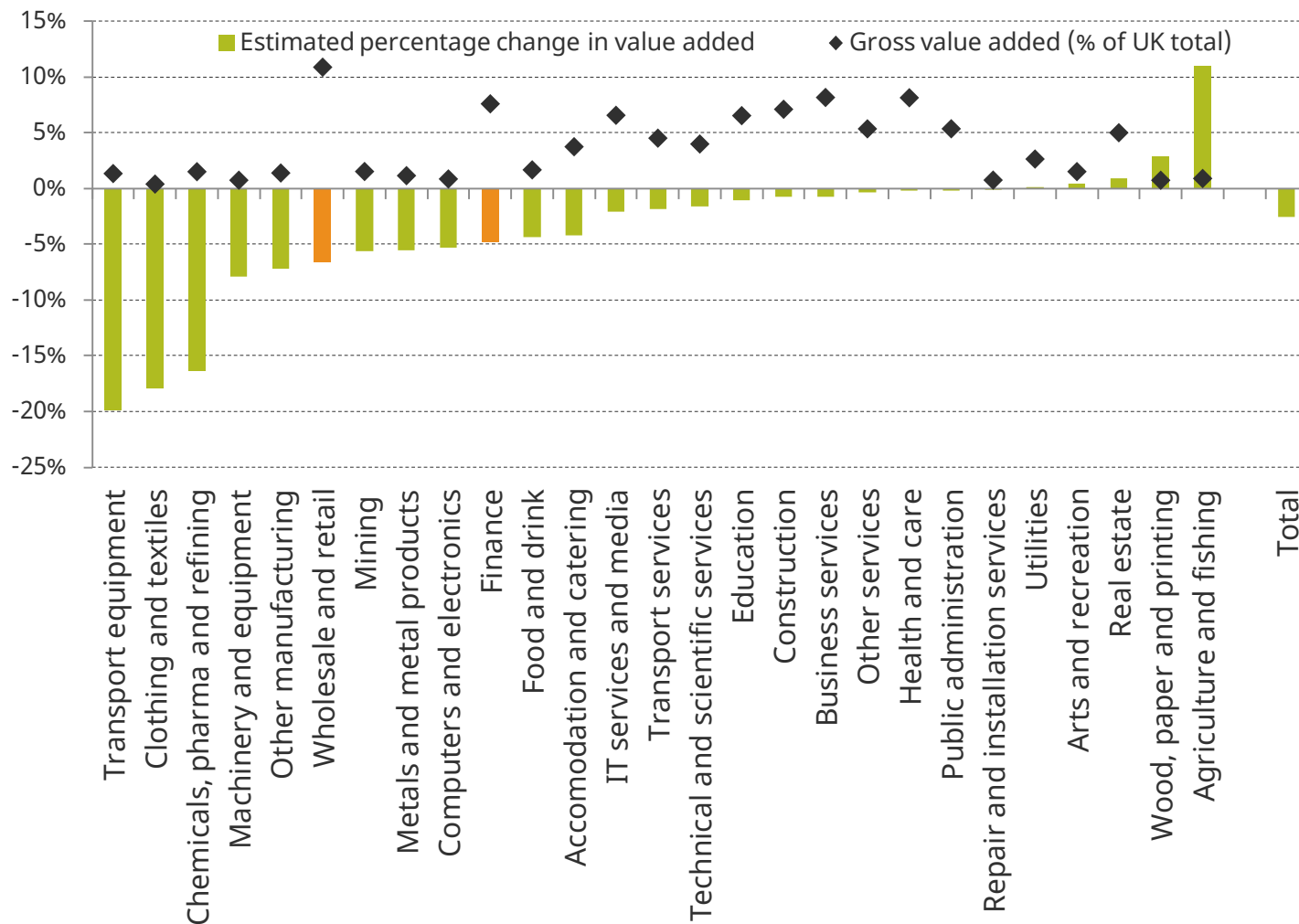
- UK market important source of demand
- Benefit from UK consumers substituting away from EU imports
- Positive impacts come at cost to consumers

Estimated impact of 'WTO rules' trade barriers Institute for Fiscal Studies



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Causes of impacts in specific industries

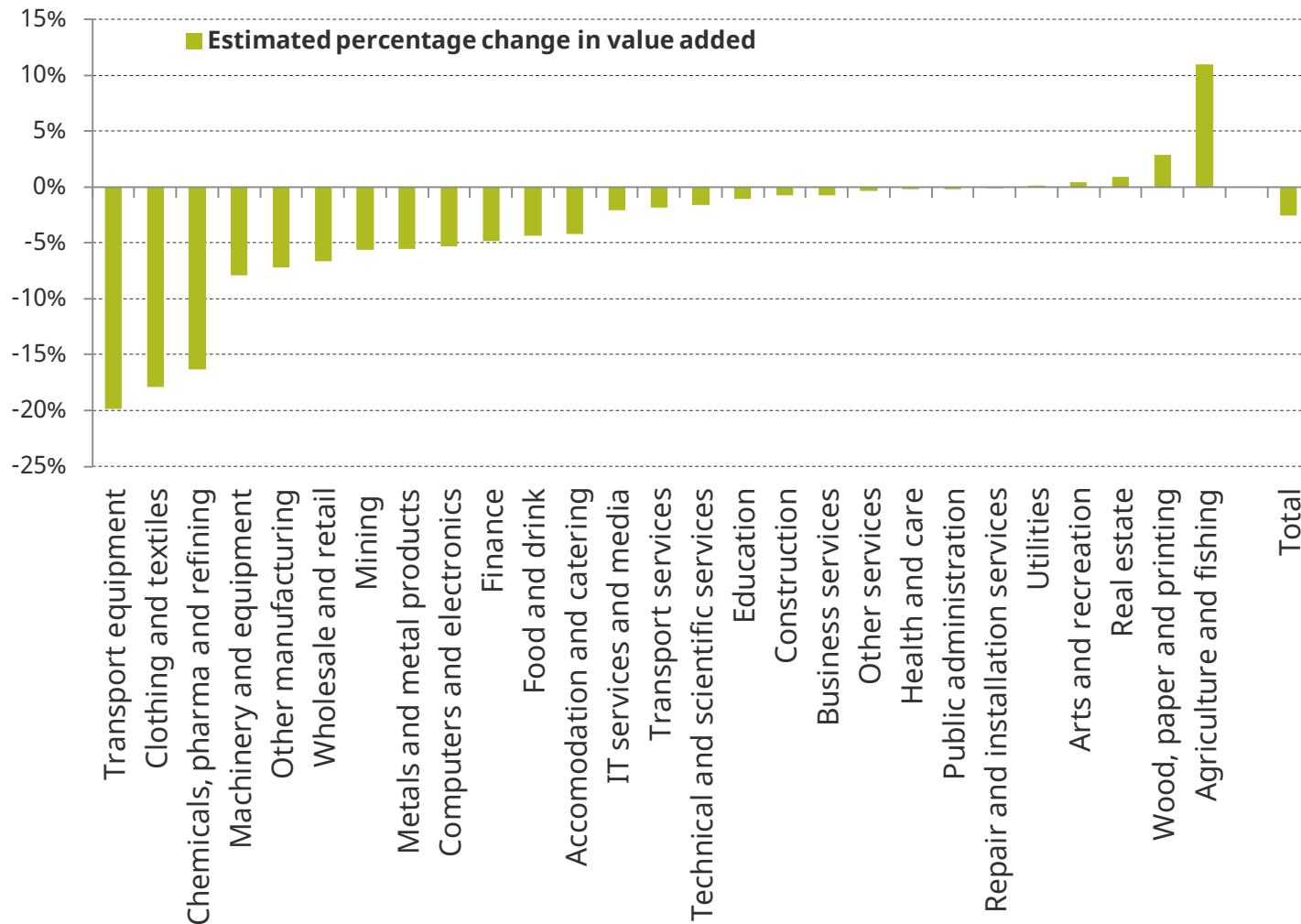
Wholesale and retail

- Driven by impact on wholesale trade services
- Faces highest non-tariff trade barriers (20%)

Finance

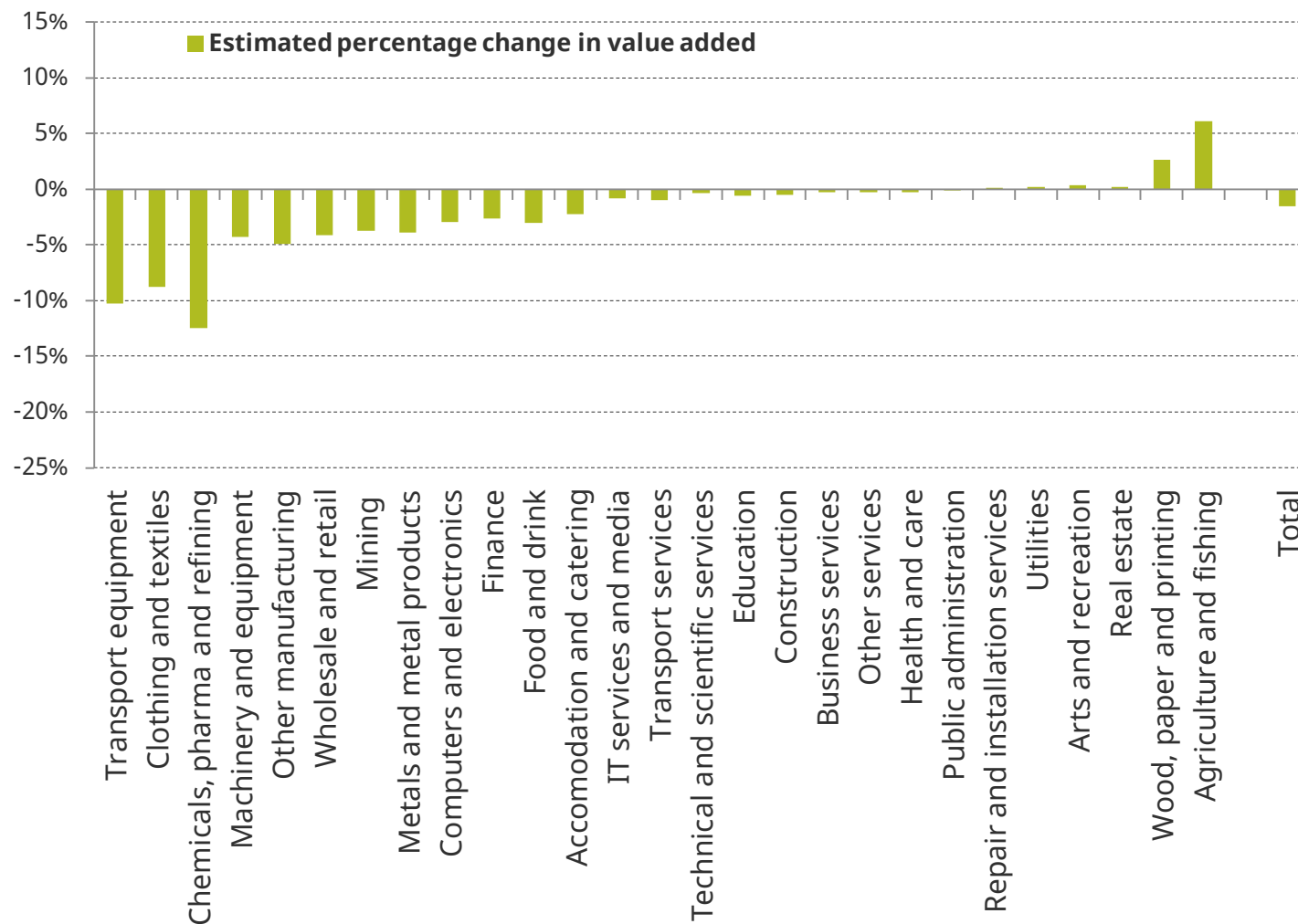
- Exports to EU higher than in other service industries (12% of output)
- Non-tariff barrier costs highly uncertain – impact could be more negative

Estimated impact of 'WTO rules' trade barriers Institute for Fiscal Studies



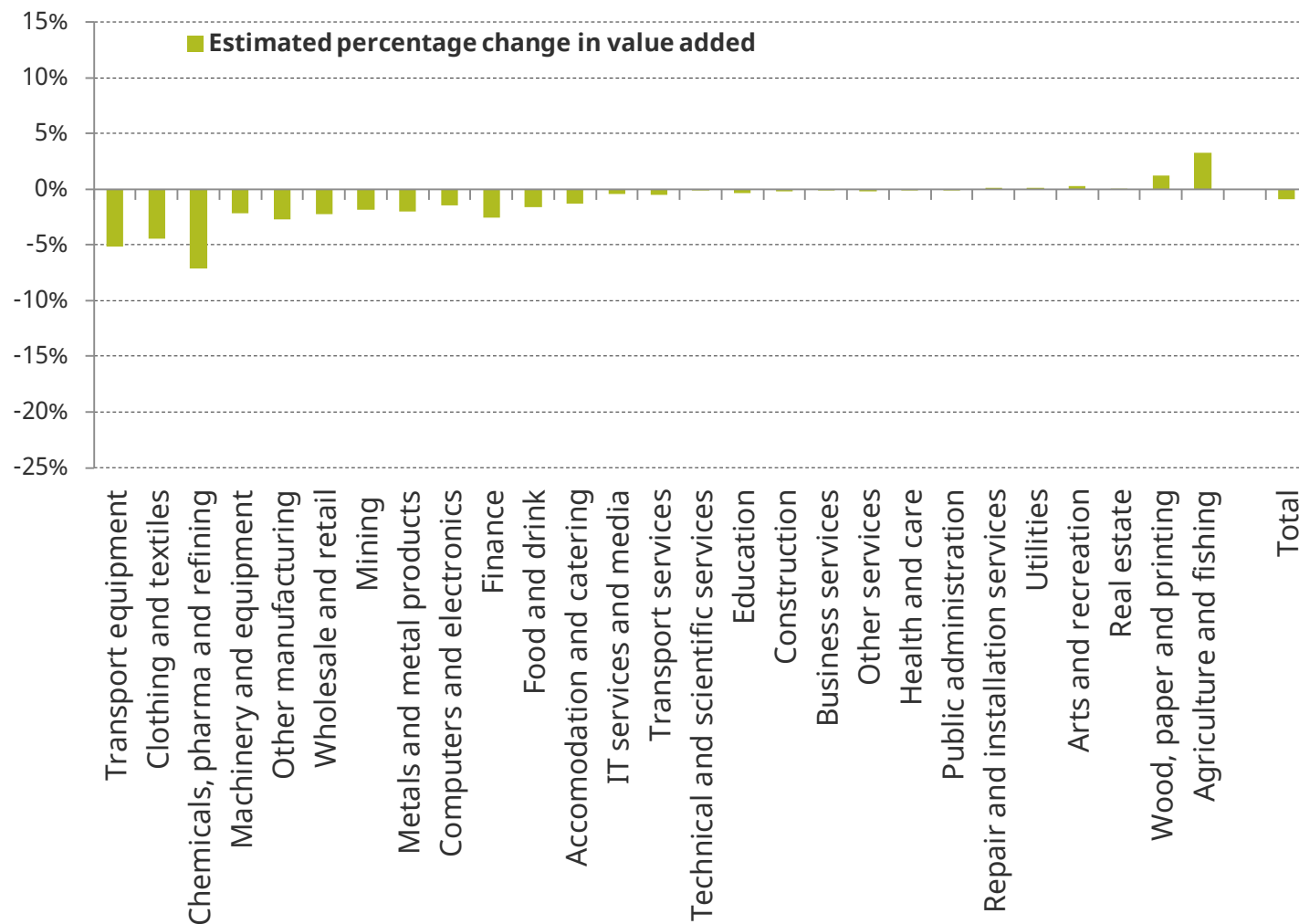
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Estimated impact of FTA trade barriers



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Estimated impact of EEA trade barriers



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Exposure of workers to negative impacts

Focus on which types of workers most exposed to negative impacts

- Proxy worker exposure based on industry of main employment
- Worker impacts likely to be closely related to employer value added

Impacts on workers will depend on firm and worker responses

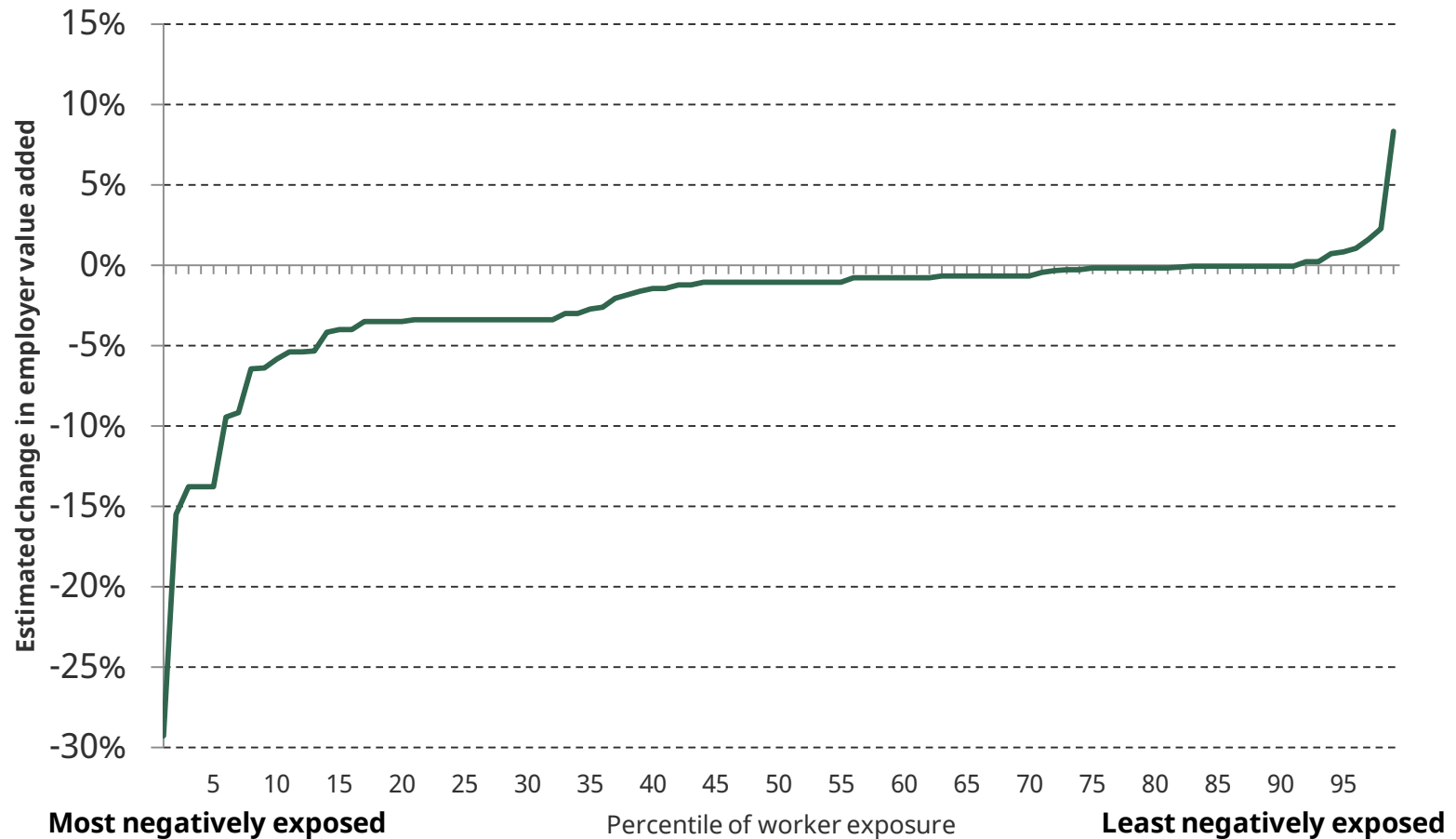
- Job losses; wage cuts; reduced profits
- Ability to move to less negatively affected industries

Do not model impacts directly

Exposure of workers to negative impacts

Large variation in exposure to negative impacts across employees

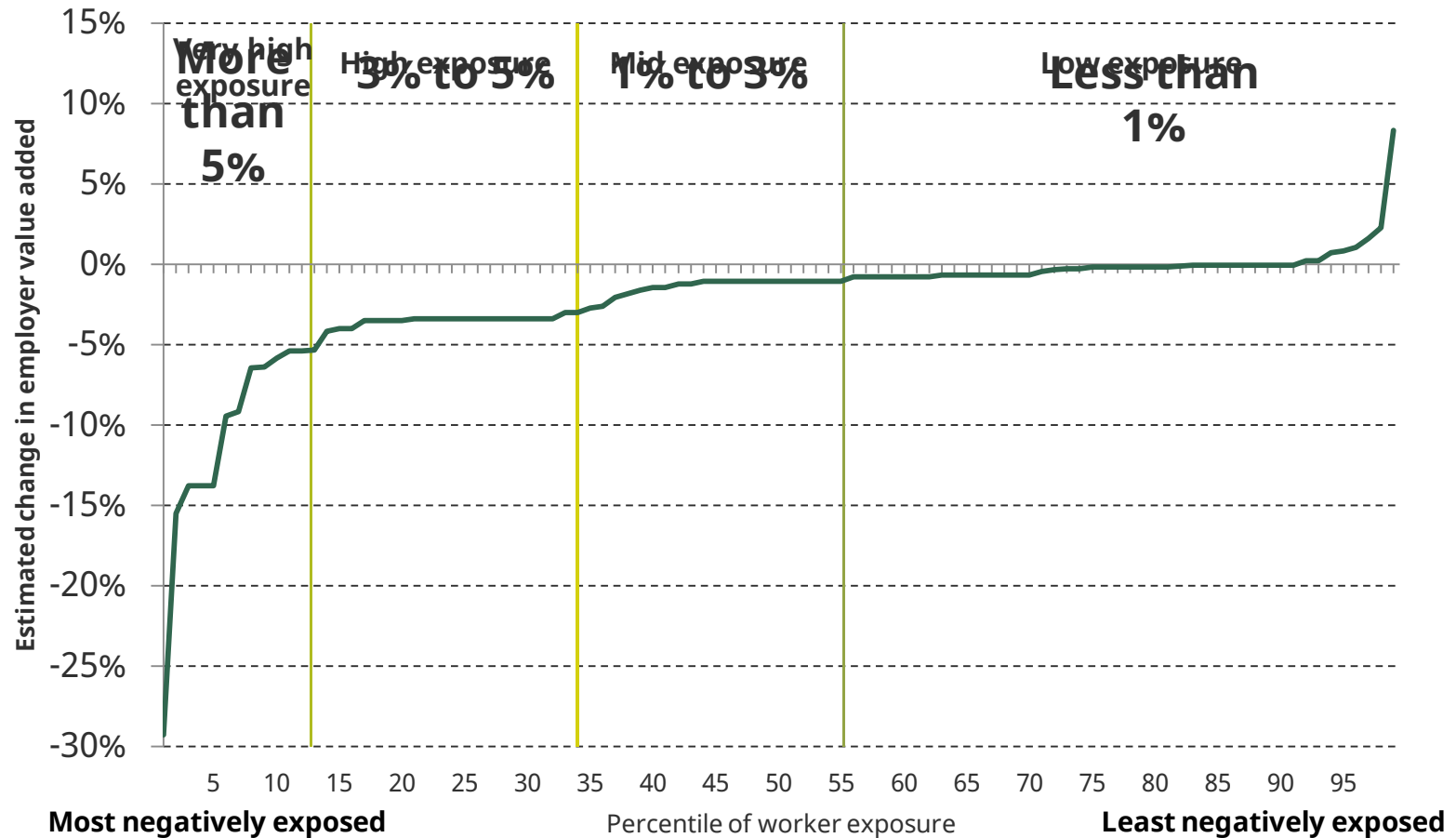
Exposure under 'WTO rules' among UK employees



Source: Figure 1.8 of *The exposure of workers to potential trade barriers between the UK and the EU*

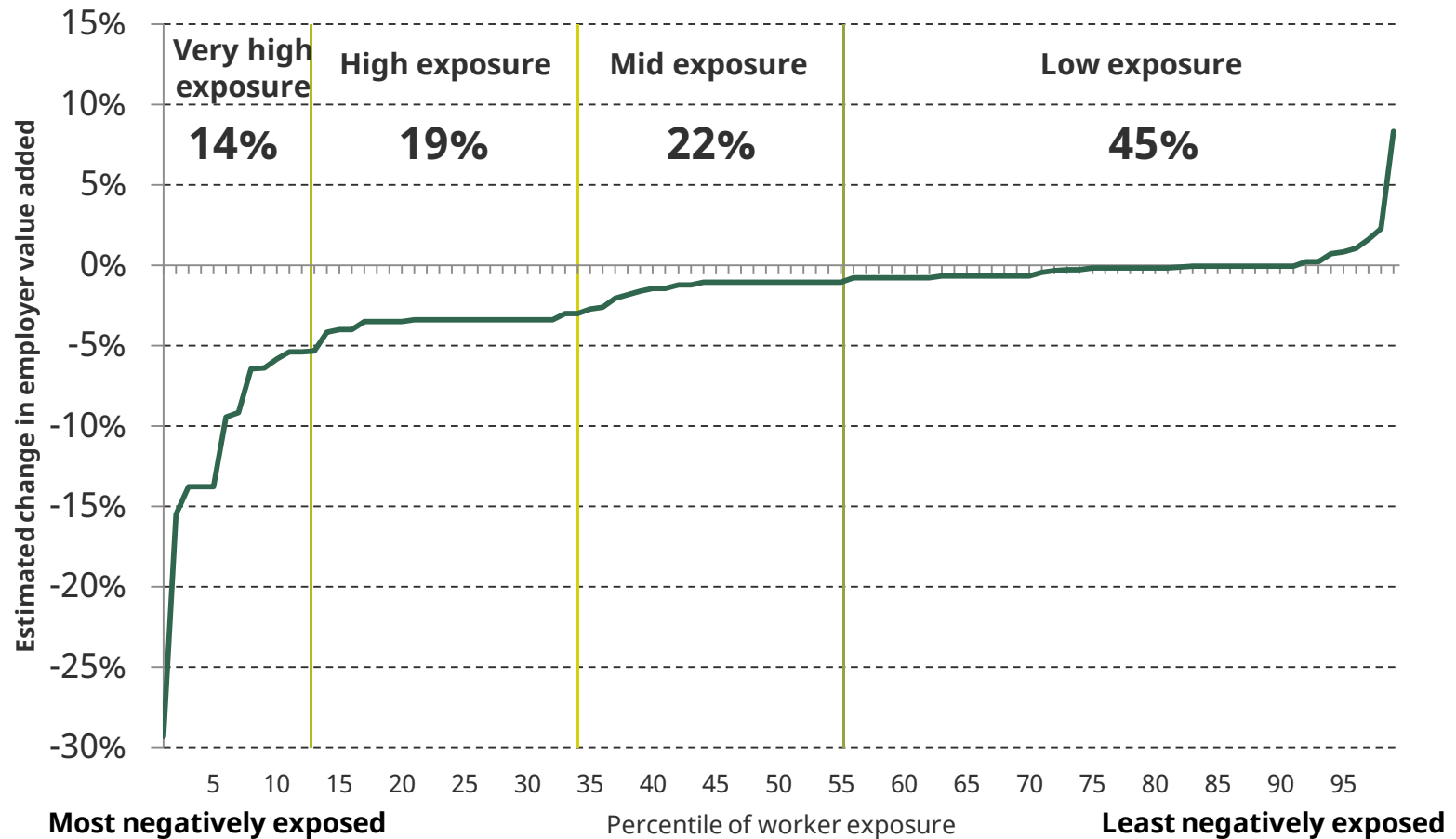
Exposure under 'WTO rules' among UK employees

Estimated fall in employer value added



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Exposure under 'WTO rules' among UK employees



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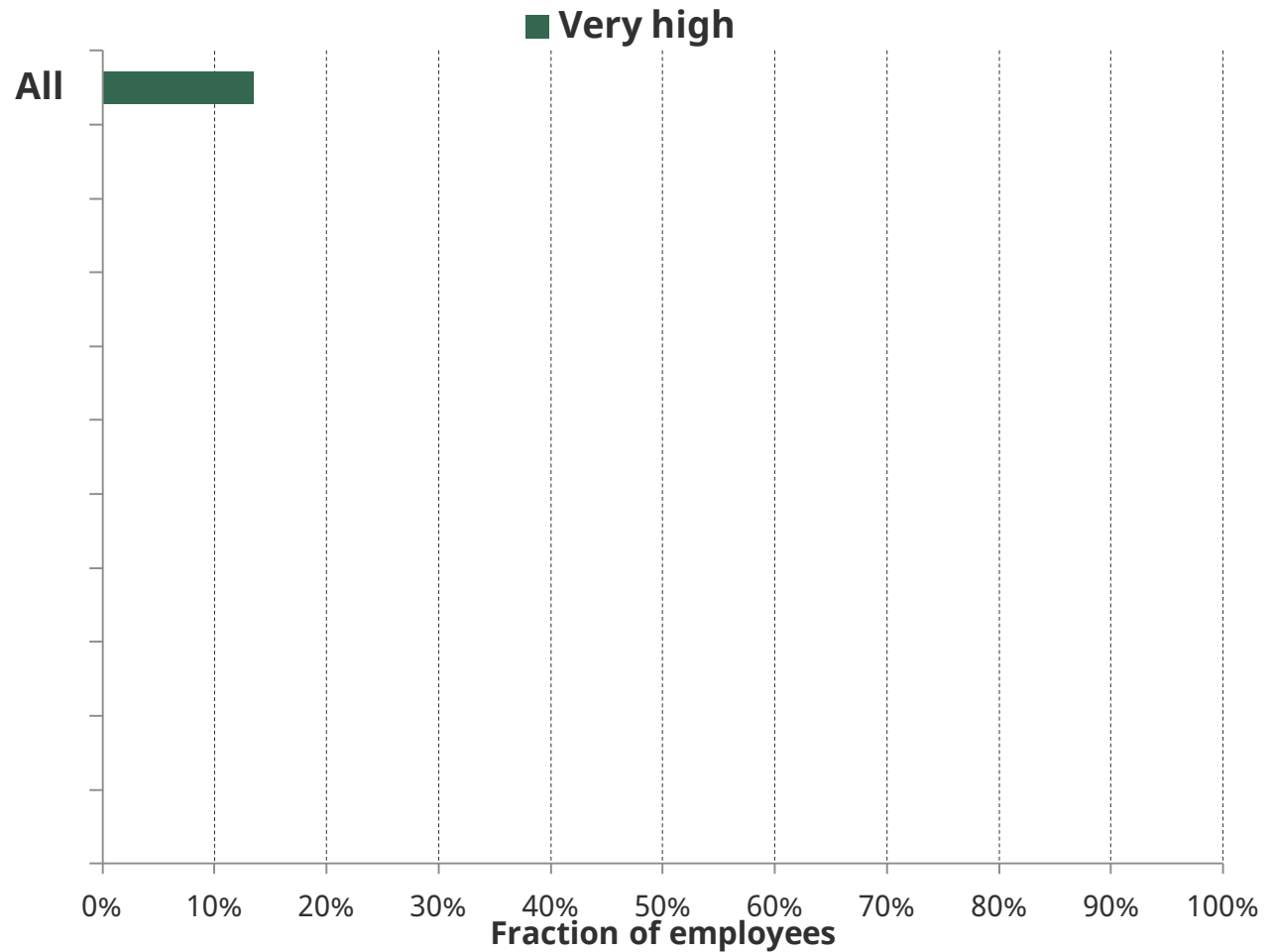
Exposure of workers to negative impacts

Large variation in exposure to negative impacts across employees

- Severe negative impacts concentrated on relatively small group
- Majority of workers exposed to modest negative impact

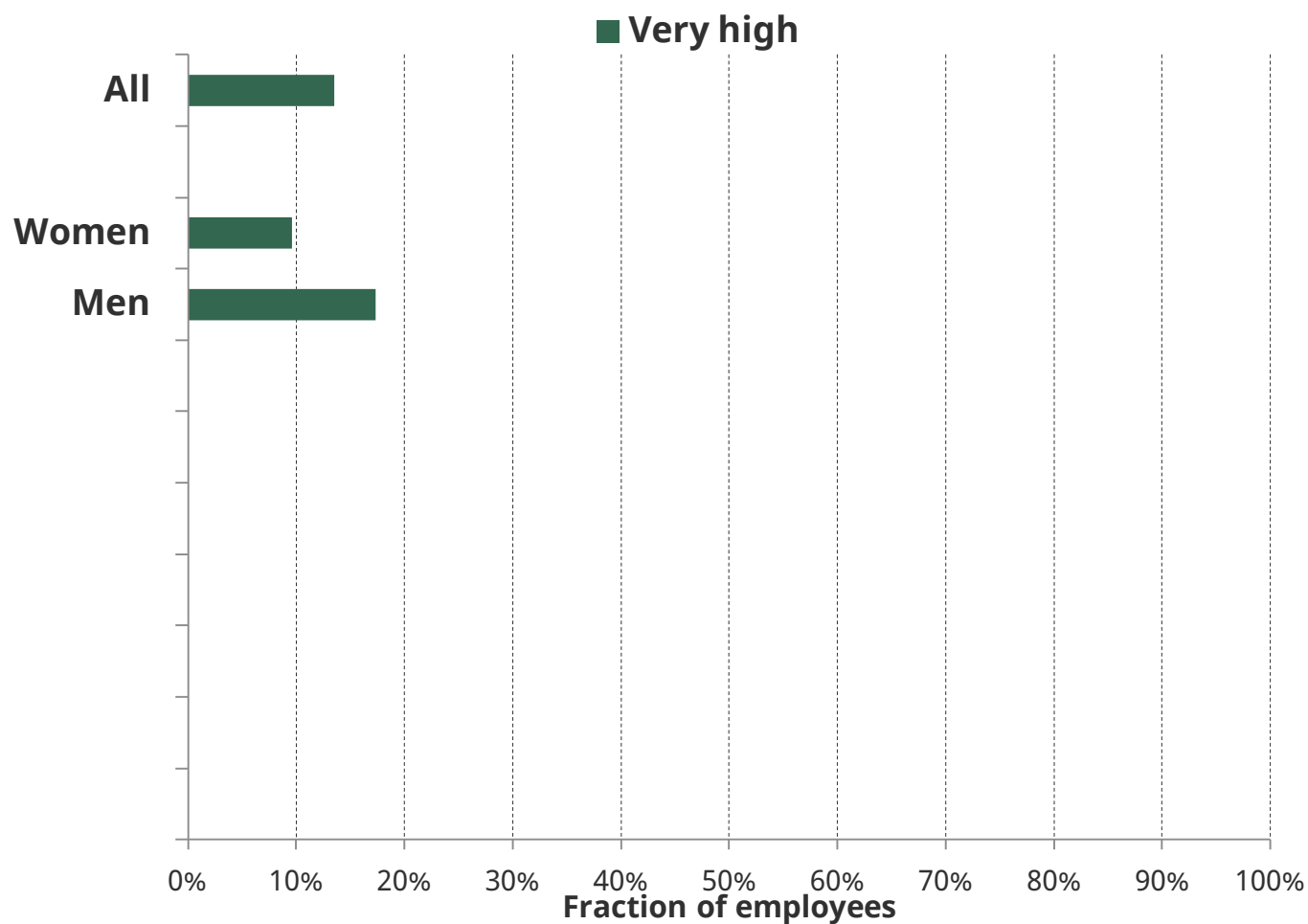
Substantial differences across worker types

'WTO rules' exposure by gender and education



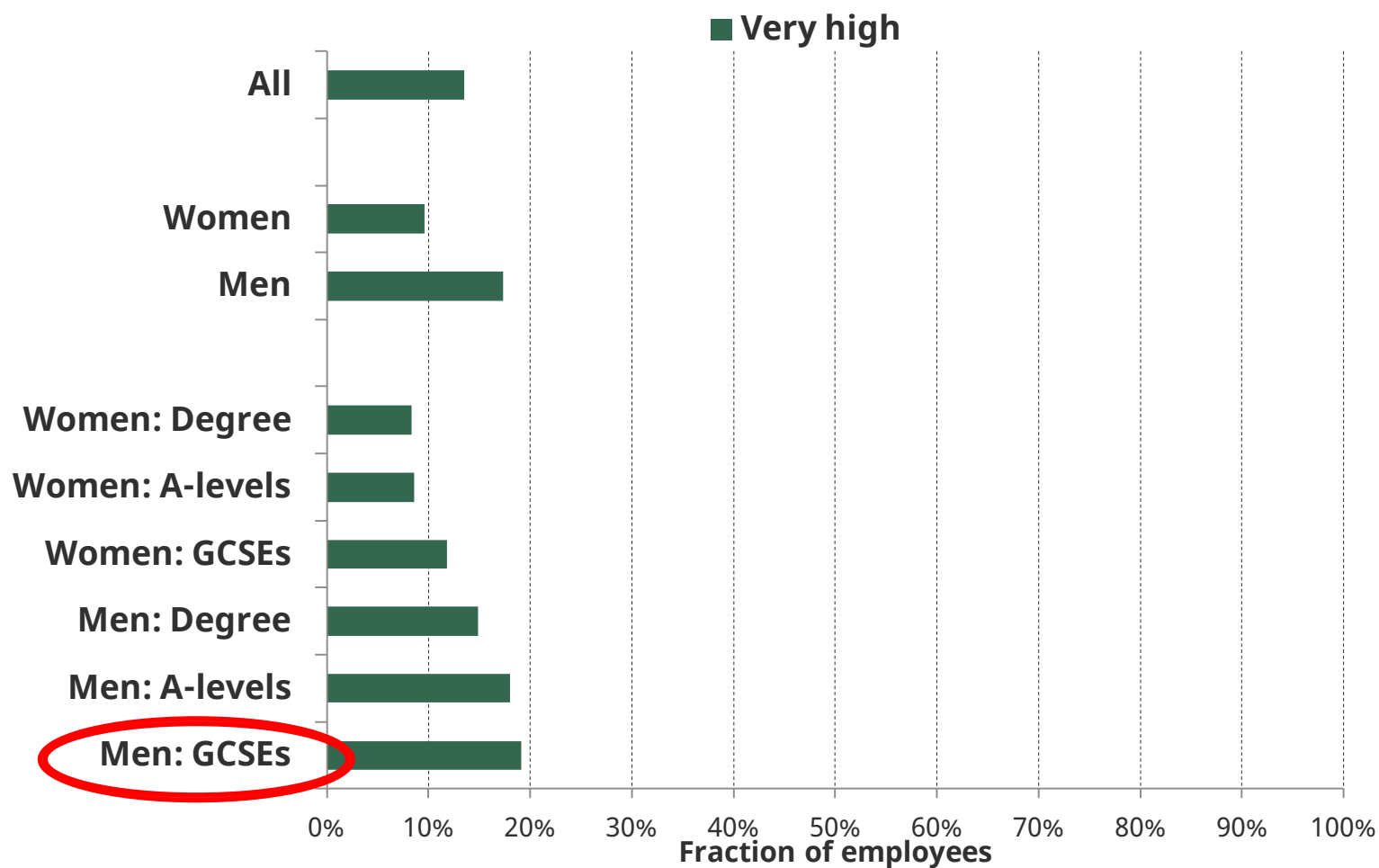
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'WTO rules' exposure by gender and education



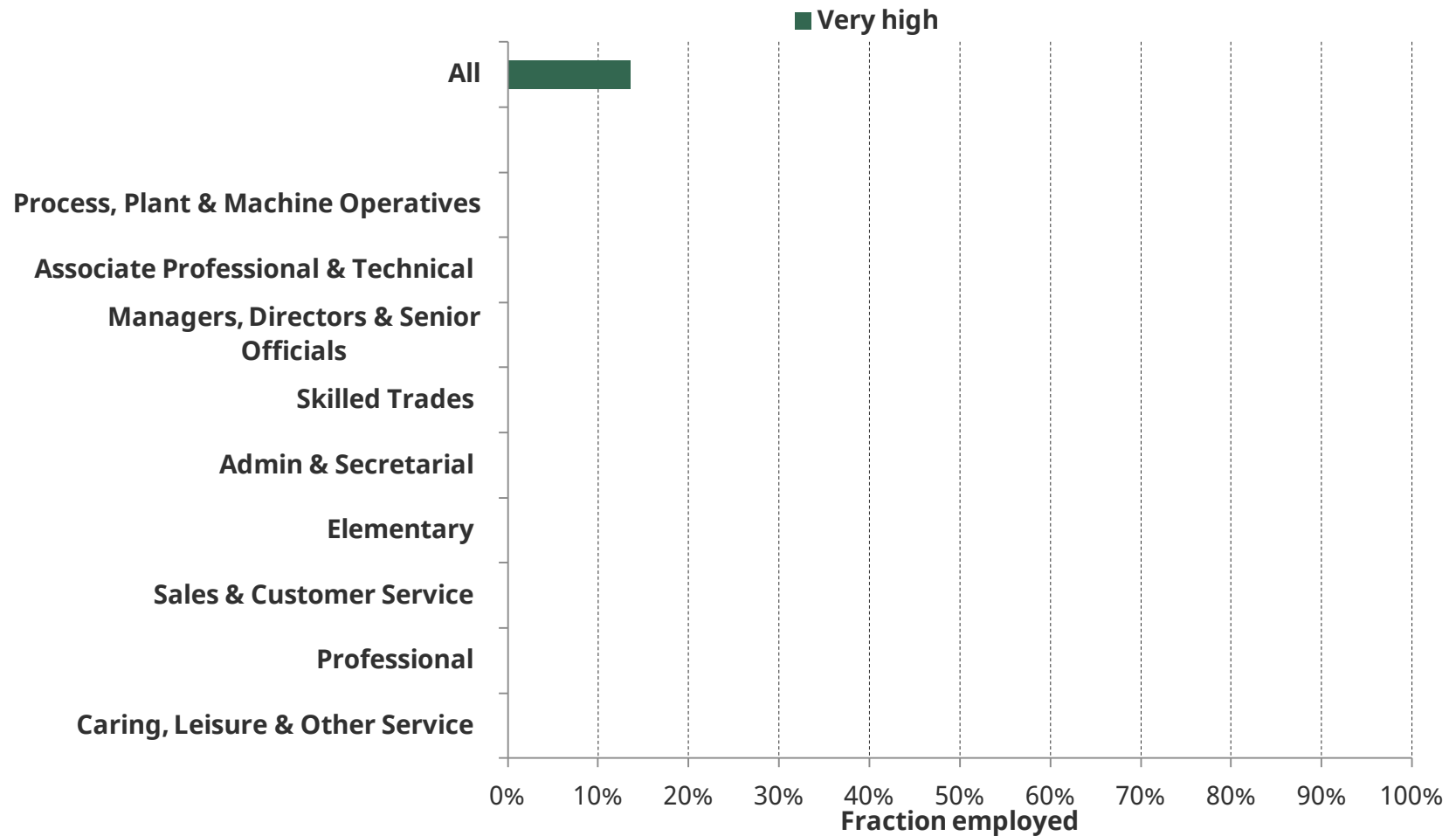
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'WTO rules' exposure by gender and education



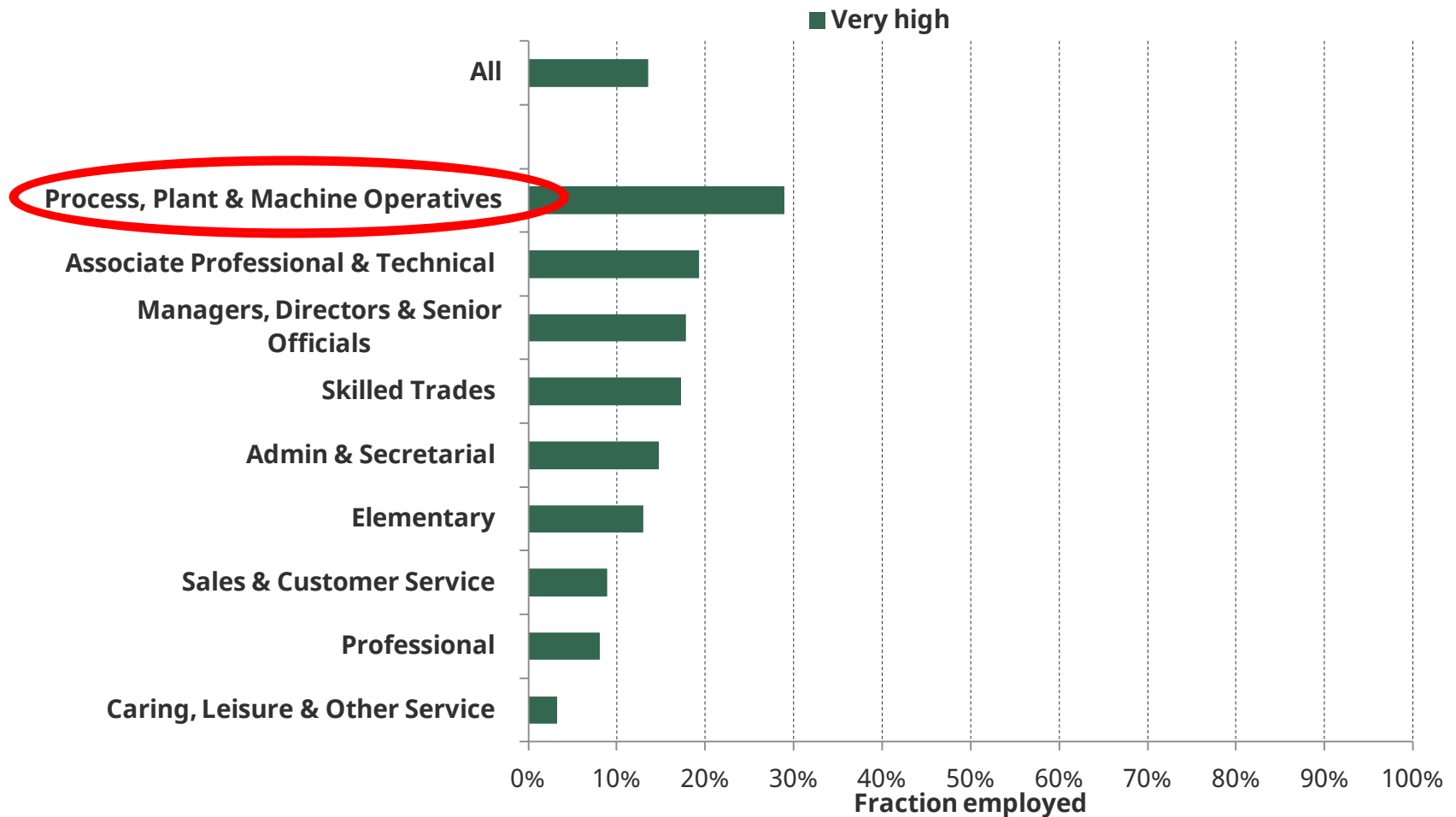
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'WTO rules' exposure by occupation



Source: Figure 1.9 of *The exposure of workers to potential trade barriers between the UK and the EU*

'WTO rules' exposure by occupation



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Exposure of workers to negative impacts

Large variation in exposure to negative impacts across employees

- Severe negative impacts concentrated on relatively small group
- Majority of workers exposed to modest negative impact

Substantial differences across worker types

- Men with low ed. qualifications more exposed
- Process, plant & machine operatives most exposed occupation

Most exposed workers likely to find adjustment harder

- Harder to find equally well paid jobs in less exposed industries
- Less likely to move into less exposed occupations

Exposure of regions to negative impacts

Regional employment composition → simple measure of exposure

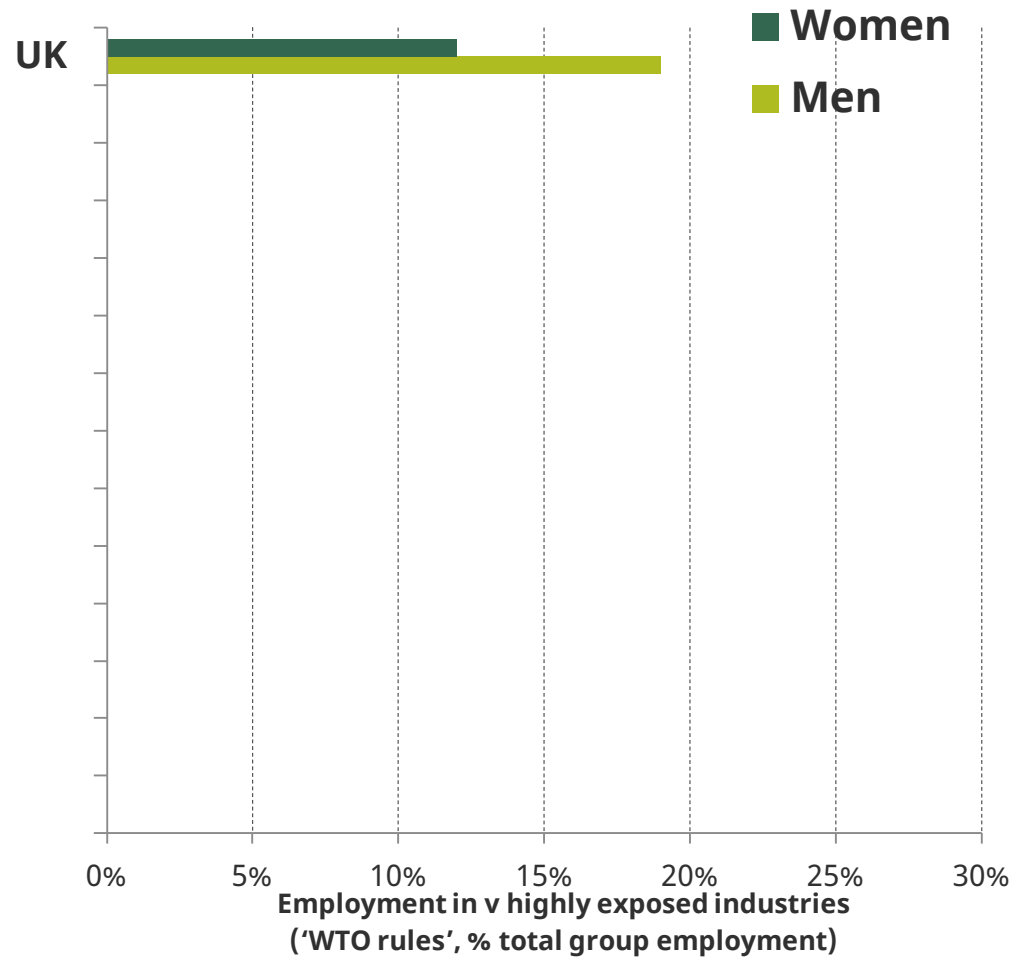
- 1. Regional differences** in exposure **smaller** than across worker types
- 2. Relative exposure** of regions **sensitive** to non-tariff barrier estimates
- 3. Finance** key driver of impact on London and inter-regional inequality

Regional impacts a key area of uncertainty

- Previous studies reach different conclusions

Very highly exposed workers have fewer 're-employment' options in some regions than others

Employment in v. highly exposed industries: GCSEs or below



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Employment in v. highly exposed industries: GCSEs or below



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Changes in trade policy cause economic disruption

Large variation in likely impact of trade barriers across industries

- Transport equipment; clothing & textiles; chemicals, pharma. & refining most exposed to negative impacts
- Agriculture may stand to gain (at cost to consumers)
- Relative impacts the same across scenarios we consider

Impacts on finance and regional exposure key areas of uncertainty

Very highly exposed workers likely to find adjustment harder

- Men with low educational qualifications and process, plant & machine operatives most exposed