

# Brexit: Six Months Later

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# Reasons for Brexit Vote


- Brexit Referendum followed
  - Years of fiscal austerity.
  - Flat GDP per capita for almost a decade.
  - Multi-decade campaign from many newspapers against the EU.
- Remain was a vote for the status quo with no promises of any great improvement.
- Leave was a vote against status quo and “the establishment” that meant different things to different people.
- In many cases, Leave was a protest vote linked to “pet issues” rather than a vote for a coherent economic plan for leaving the EU.

# Many Reasons for Voting Leave

“I VOTED **LEAVE** DUE TO THE **SEXIST ATTITUDES**  
TOWARDS WOMEN WITHIN THE EU.”

**UNDIVIDED**

**#WeDemand**  
**A BETTER BREXIT**

 **Undivided** @weareundivided · 23h  
Did you **#voteleave** for the same reason? Submit a demand if you think women's rights should be a priority post-Brexit [bit.ly/2gIThs2](https://bit.ly/2gIThs2)  
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# Benefits of Leaving Largely Illusory

- **Reducing Immigration**

- Largely blamed on EU but (controllable) non-EU immigration was always higher than from EU.
- Forgotten were the 1.25 million UK citizens living in the EU.
- Pressure on public services was due to austerity, not immigration.

- **“Taking Back Control”**

- Unclear which EU laws the UK would like to repeal.
- Energy-saving lightbulbs often mentioned ...
- Some enthusiasm for regaining the ability to undertake bad policies like subsidising failing industries (which may not be possible anyway due to WTO rules).

# Benefits of Leaving Largely Illusory

- **EU as a bloated bureaucracy with ridiculous rules.**
  - EU has 43,000 employees, less than many English county councils.
  - The “ridiculous” rules setting specifications for various types of products will still be around after Brexit because they are also a feature of WTO trading rules.
  - As will most of the health, safety and environmental regulation.
- **€350 million per week to spend on the NHS.**
  - Will largely be spent on replacing regional funding, research funding, transitional payments and future payments for access to the single market.

# WTO Tariff Schedules for Rubber

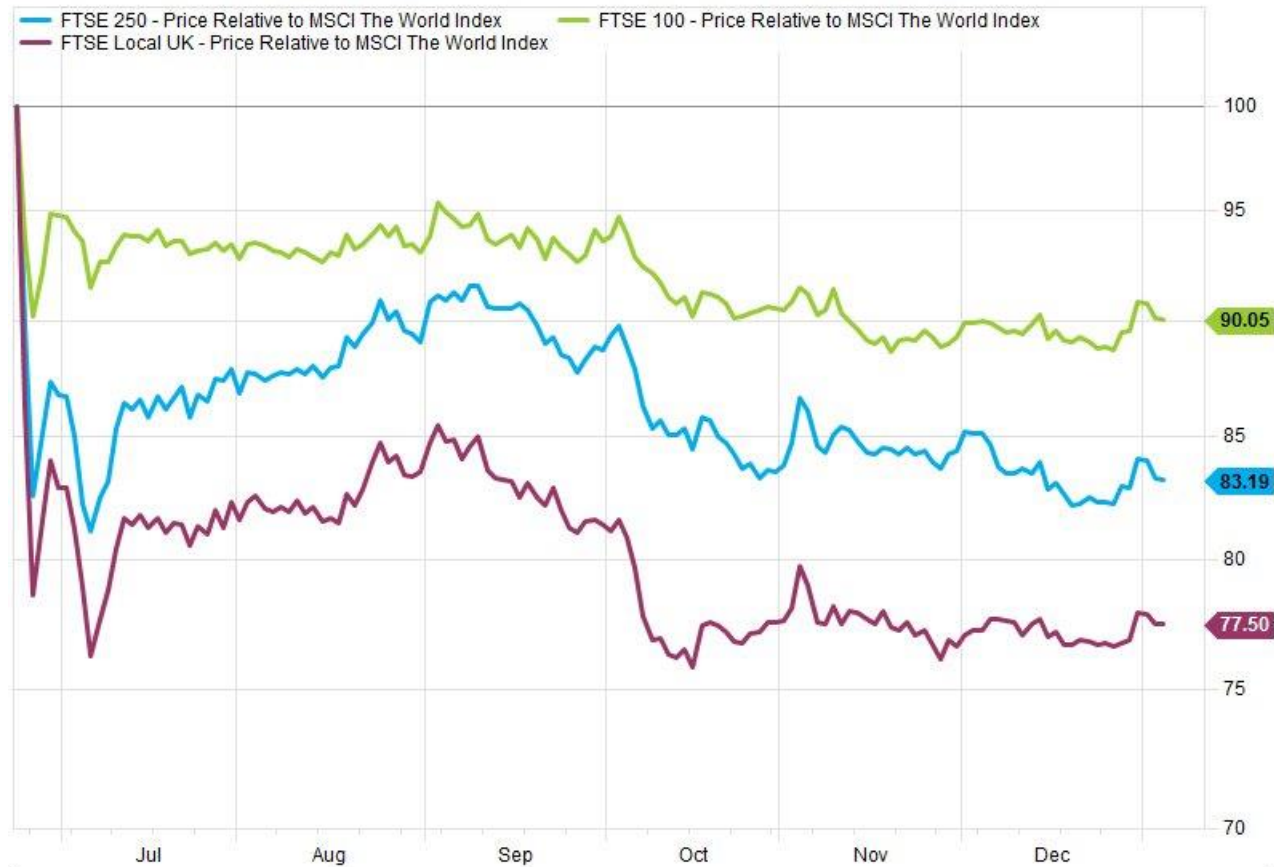
## 40 - RUBBER AND ARTICLES THEREOF

- ☒ ☐ 4001 - Natural rubber, balata, gutta-percha, guayule, chicle and similar natural gums, in primary forms or in plates, sheets or strip.
- ☒ ☐ 4002 - Synthetic rubber and factice derived from oils, in primary forms or in plates, sheets or strip; mixtures of any product of heading 40.01 with any product of this heading, in primary forms or in plates, sheets or strip.
- ☒ ☐ 4003 - Reclaimed rubber in primary forms or in plates, sheets or strip.
- ☒ ☐ 4004 - Waste, parings and scrap of rubber (other than hard rubber) and powders and granules obtained therefrom.
- ☒ ☐ 4005 - Compounded rubber, unvulcanised, in primary forms or in plates, sheets or strip.
- ☒ ☐ 4006 - Other forms (for example, rods, tubes and profile shapes) and articles (for example, discs and rings), of unvulcanised rubber.
- ☒ ☐ 4007 - Vulcanised rubber thread and cord.
- ☒ ☐ 4008 - Plates, sheets, strip, rods and profile shapes, of vulcanised rubber other than hard rubber.
- ☒ ☐ 4009 - Tubes, pipes and hoses, of vulcanised rubber other than hard rubber, with or without their fittings (for example, joints, elbows, flanges).
- ☒ ☐ 4010 - Conveyor or transmission belts or belting, of vulcanised rubber.
- ☒ ☐ 4011 - New pneumatic tyres, of rubber.
- ☒ ☐ 4012 - Retreaded or used pneumatic tyres of rubber; solid or cushion tyres, tyre treads and tyre flaps, of rubber.
- ☒ ☐ 4013 - Inner tubes, of rubber.
- ☒ ☐ 4014 - Hygienic or pharmaceutical articles (including teats), of vulcanised rubber other than hard rubber, with or without fittings of hard rubber.
- ☒ ☐ 4015 - Articles of apparel and clothing accessories (including gloves, mittens and mitts), for all purposes, of vulcanised rubber other than hard rubber.
- ☒ ☐ 4016 - Other articles of vulcanised rubber other than hard rubber.
- ☒ ☐ 4017 - Hard rubber (for example, ebonite) in all forms, including waste and scrap; articles of hard rubber.

# No Post-Referendum Recession

- Perhaps consistent with textbook macro:
  - Brexit reduces UK potential GDP but hasn't happened yet.
  - Huge uncertainty over the range of potential negative effects and they will play out over many years.
  - Vote triggered an immediate exchange rate depreciation & easing of monetary policy which has a positive short-run impact.
- We will see reductions in investment in some sectors but gross effects (negative and positive) larger than net effects.
- We may never see a Brexit recession, just a negative supply-side shock restraining growth over a number of years.

# The Market's Judgement on Effect of Brexit on UK Companies

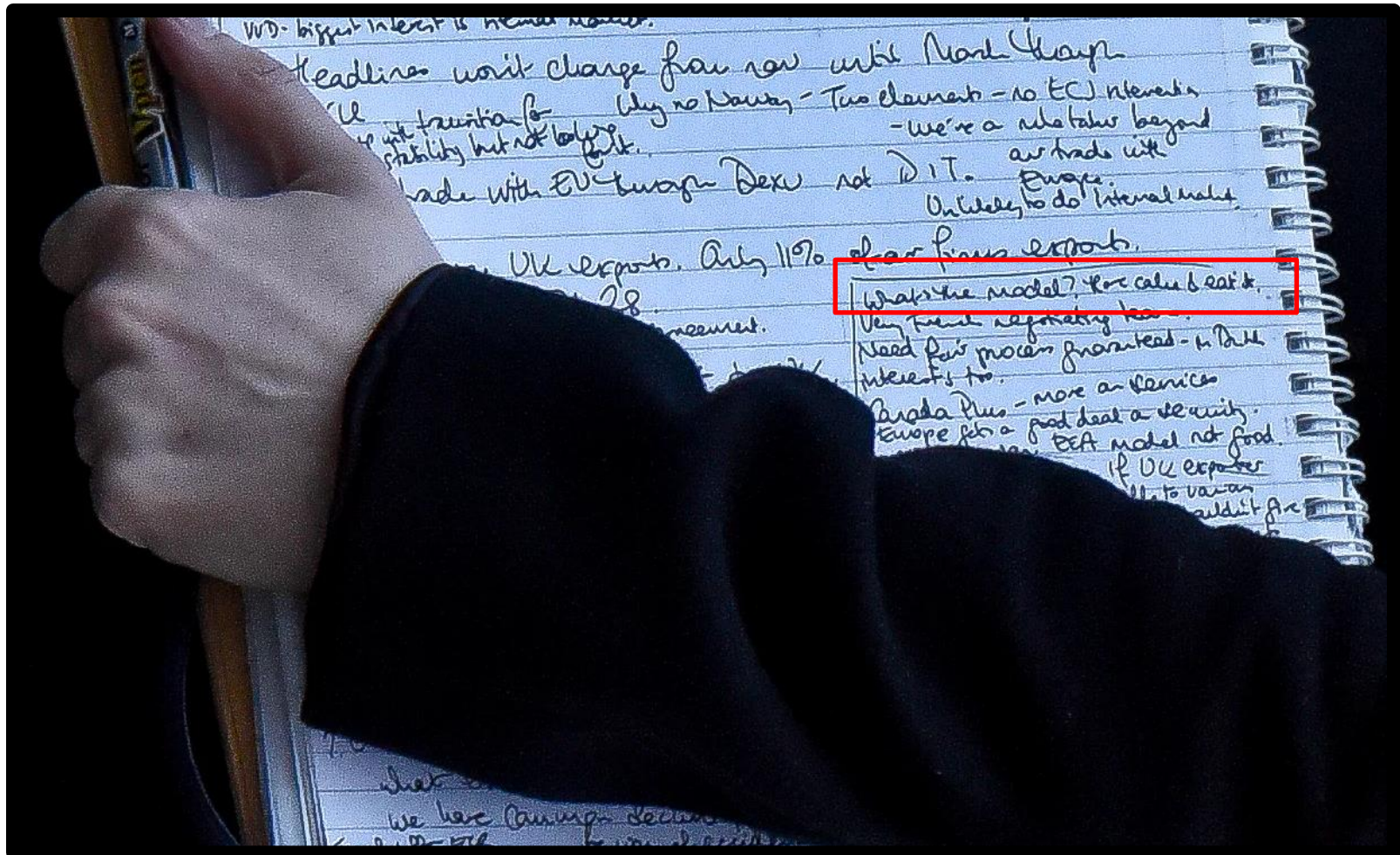




# What Is the UK's Approach?

- Ivan Rogers (just resigned as UK ambassador to the EU): *“We do not yet know what the Government will set as negotiating objectives for the UK’s relationship with the EU after exit.”*
- Four apparent “red lines”.
  1. “Take back control” of immigration
  2. Leave the jurisdiction of the European Court of Justice
  3. Reduce money going to Brussels
  4. Allow Britain to strike new trade deals

# Starting UK Position: Have Cake and Eat It



# EU27 Position

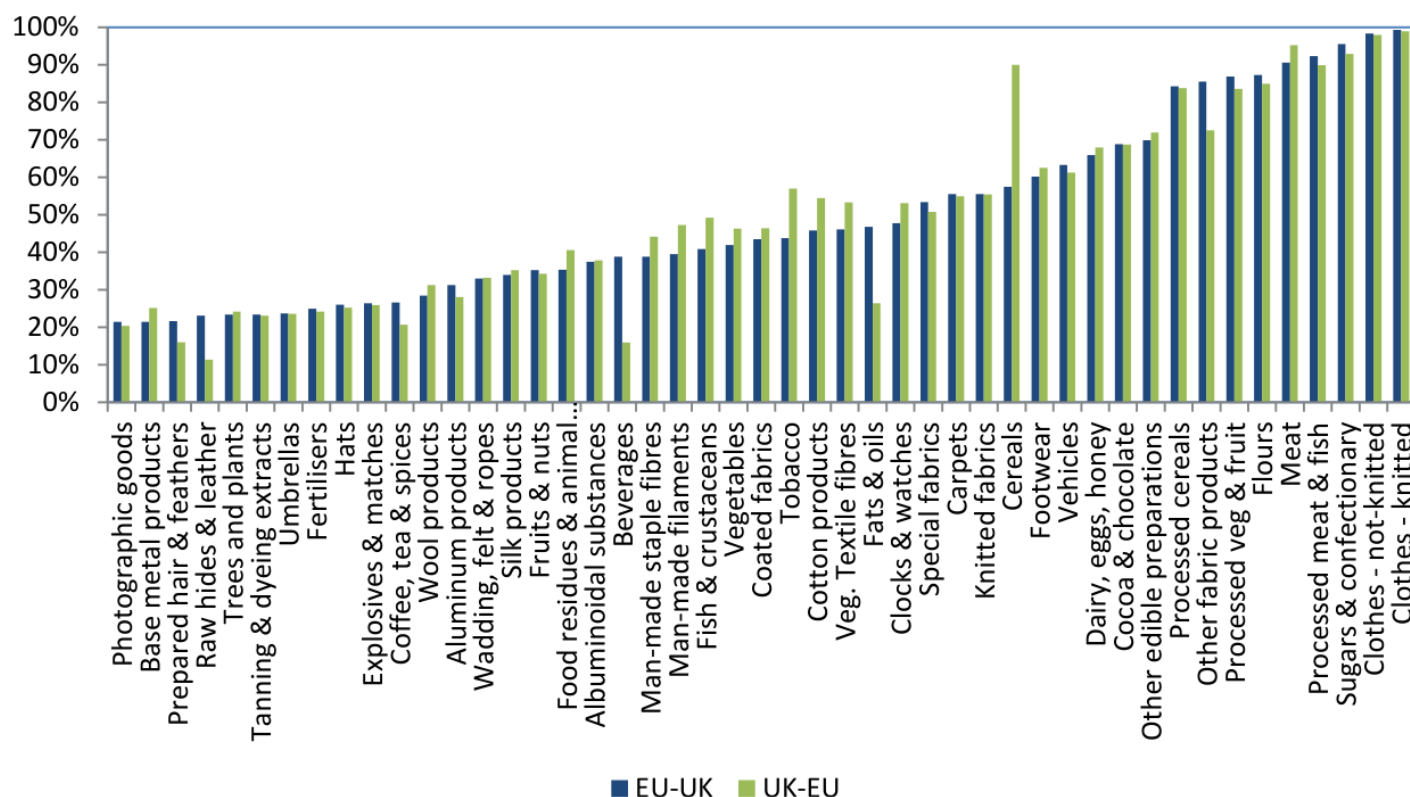
- An “a la carte” Brexit could represent an existential threat to the EU.
  - Would encourage anti-EU parties in France, Italy and elsewhere.
- Freedom of movement an important principle for many (in particular Eastern) EU states.
  - Swiss example largely ignored by the UK.
- EU27 not inclined to offer UK an “a la carte” option involving single market membership with restrictions on freedom of movement.

# Most Likely Outcome: Very Hard Brexit

- Tory party red lines appear to rule out EEA, Swiss options or membership of customs union.
- Temporary EEA membership (Norway option)? Unlikely, given Conservative political rhetoric.
- Range of practical problems:
  - Limited negotiating time after Article 50 notification (maximum of 18 months).
  - Extension of Article 50 beyond two years also unlikely.
  - Need for UK to renegotiate its position within the WTO.
- **Baseline Scenario: UK leaves EU in 2019 and trades with the EU under WTO trading rules.**
- UK may later attempt new trade deals with the EU (and other regions) but these will take years to negotiate and pass.

# Large Potential Sectoral Adjustments

Figure 8: Sectors with Trade Reductions over 20%



# Financial Services

- London will continue to be a major centre for global financial services.
- But many financial institutions are looking to redeploy resources out of London and towards other European cities.
- One particular type of business that will leave is euro-denominated clearing.
  - EY estimates 83,000 job losses in banking and related sectors over the next seven years if euro-denominated clearing is forced out of London.
- Lots of longer-term complications due to loss of “passporting” and requirements for regulatory equivalence.

# Scotland

- Ian Wooten: “Scotland is very attached to its European membership, perhaps more so than its membership of the UK.”
- Scottish enthusiasm for EU could lead to a new independence referendum with Scotland leaving the UK to join\remain in EU.
- But post-Brexit, Scotland getting independence and joining EU would mean a hard border with England. This could reduce enthusiasm for leaving UK.
- Complex issues:
  - Can Scotland prevent Brexit via Sewel convention?
  - Special status for Scotland inside single market post-Brexit?



# Ireland

- Irish PM, Enda Kenny: Brexit vote “the greatest economic and social challenge for this island in fifty years”
- Many complex issues
  - Ireland & UK have historically had a “free travel area”. Can this survive UK ending freedom of movement with the EU?
  - UK is Ireland’s largest export market and economy would be heavily affected by WTO tariff levels.
  - Intra-island trade of huge importance for both North and South.
  - Loss of CAP and EU regional funding for Northern Ireland.
  - Will Ireland attract FDI previously going to UK?
  - Will Dublin attract City of London financial businesses?