Potential trade arrangements with the EU

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Introduction

Future relationship with EU has important implications for:

- Trade
- Economic growth
- Regional and other inequalities in the UK

This presentation:

- Why new trade barriers likely to be significant
- Why depth of relationship important for trade
- Impacts likely to be uneven across workers and labour markets
  - Particularly significant for workers in manufacturing industries

Suggests close monitoring of impacts and targeted investments for at-risk locations/groups will be important
EU is UK’s most important trade partner

Potential trade agreements with the EU

Source: ONS Pink Book 2019
## Measuring the depth of trade agreements

### List of provisions

| 1. Tariffs on industrial goods | 15. Anti-corruption | 29. Cultural cooperation | 43. Political dialogue |
| 3. Customs administration | 17. Environmental laws | 31. Education and training | 45. Regional cooperation |
| 5. SPS measures | 19. Investment measures | 33. Financial assistance | 47. SMEs |
| 12. TRIMS measures | 26. Audiovisual | 40. Mining |
| 13. GATS | 27. Civil protection | 41. Money laundering |
| 14. TRIPS | 28. Innovation policies | 42. Nuclear safety |

Depth of different trade agreements

Depth of different trade agreements

Depth of different trade agreements

<table>
<thead>
<tr>
<th>Agreement</th>
<th>No. legally enforceable provisions</th>
</tr>
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<tbody>
<tr>
<td>EU</td>
<td>44/52</td>
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<tr>
<td>EEA</td>
<td>36/52</td>
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<tr>
<td>EU - S. Korea</td>
<td>21/52</td>
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<td>NAFTA</td>
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<td>EU - Australia</td>
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Depth of different trade agreements

Depth of different trade agreements

Estimated long-run effects of different agreements on goods trade

Source: Table 1 (col. 4) of Mayer T, V Vicard, S Zignago (2019), "The Cost of Non-Europe Revisited", Economic Policy, 34(98).
Estimated long-run effects of different agreements on goods trade

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Estimated long-run effects of different agreements on goods trade

- EU Single market
- EEA
- FTA: 45%
- WTO: 15%

Source: Table 1 (col. 4) of Mayer T, V Vicard, S Zignago (2019), "The Cost of Non-Europe Revisited", Economic Policy, 34(98).
Estimated long-run effects of different agreements on goods trade

- EU Single market: 0%
- EEA: 166%
- FTA: 45%
- WTO: 15%

Source: Table 1 (col. 4) of Mayer T, V Vicard, S Zignago (2019), "The Cost of Non-Europe Revisited", Economic Policy, 34(98).
Estimated long-run effects of different agreements on goods trade

- EU Single market: 223%
- EEA: 166%
- FTA: 45%
- WTO: 15%

Source: Table 1 (col. 4) of Mayer T, V Vicard, S Zignago (2019), "The Cost of Non-Europe Revisited", Economic Policy, 34(98).
Effect of different agreements on services trade

Less data is available for services trade
- Harder to evaluate long run effects
- But deeper agreements associated with more services trade (Dhingra et al. 2018, Mayer et al. 2019)

Different aspects of trade agreements more relevant for services trade
- Certain non-tariff barriers more important than tariffs
- Should we focus on reducing trade barriers facing goods or service exporters?
Goods vs services trade

Exports to the EU

Goods 59% (£171bn)

Services 41% (£120bn)

% of Employment

Goods 12%

Services 88%
Which sectors are most affected?

Measures of “exposure” for different industries from IFS *Green Budget 2018*

Top 5 most exposed industries (WTO rules scenario)

1. Transport equipment
2. Clothing and textiles
3. Chemicals, pharma and refining
4. Machinery and other equipment
5. Other manufacturing
Regional concentration of manufacturing

% of total employment GB LAs in 2018

Source: Author’s calculations using Business Register and Employment Survey
Manufacturing is more important for those with fewer qualifications

Source: Author’s calculations using 2018 Quarterly Labour Force Survey
Conclusion

Diverging from the UK’s largest trading partner likely to be costly

These costs are likely to be uneven

- Goods industries account for 12% of employment but most exports to EU
- Employment in manufacturing is regionally concentrated
- Manufacturing disproportionately employs those with few qualifications
- Literature (e.g. on effects of Chinese imports) suggests adverse shocks to this group have long-lasting effects

Case for close monitoring of impacts across local labour markets and investments for at-risk regions/groups
A look ahead to the March 2020 Budget

Wednesday 26 February 2020
One Birdcage Walk, London

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