

# UKTPO

UK TRADE POLICY  
OBSERVATORY

Conference

*Analytical studies of Brexit*

Tuesday 3 July 2018  
Chatham House

**US**  
UNIVERSITY  
OF SUSSEX

**CHATHAM  
HOUSE**  
The Royal Institute of  
International Affairs

## WELCOME

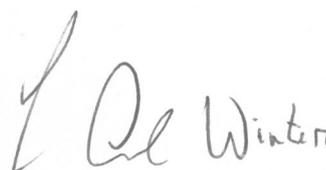
Welcome to the UK Trade Policy Observatory conference on “*Analytical studies of Brexit*”. June 2018 marks the second anniversary of the UK’s historic vote to leave the EU and the second anniversary of the UK Trade Policy Observatory (UKTPO). The UKTPO was created a few days after the referendum by faculty at the University of Sussex. International trade policy and European Studies have long been specialisms in the Department of Economics and a few years ago the Departments of Business, Law and International Relations also appointed trade experts. The Observatory is a partnership between the University of Sussex and Chatham House.

Brexit is probably the greatest political - and certainly the greatest administrative - shock that the UK has experienced in several generations. Within a year, the UK needs to negotiate the form of its future trading relationship with the European Union, establish itself as a fully independent member of the World Trade Organisation and start to define and negotiate its relationship with other countries. The technical challenges are legion and require huge amounts of input from what is actually a rather small analytical community of expertise on international trade.

The purpose of this conference is not to give immediate policy advice on how to configure UK trade relations in future - we have all been doing plenty of that and will doubtless be doing so again in the near future when negotiations begin in earnest (besides, who is listening just now?). Rather, the conference aims to explore Brexit trade issues analytically with a view to producing new

insights and strengthening our understanding of the data and methodological tools with which we might eventually offer advice.

Brexit may not be the greatest economic or social challenge that the UK faces, but it is the most immediate, has the widest set of policy options (good and bad) from which government can choose and will profoundly affect our ability to address other problems. Getting Brexit right is thus of great significance, and discussion among researchers is one step towards achieving that.



**L. Alan Winters**  
Director of the UK Trade Policy Observatory



## PROGRAMME OVERVIEW

**09.15 - 09.45**

Registration and coffee

**09.45 - 09.50**

Welcome

*Adam Ward, Chatham House*

**09.55 - 10.35**

Brexit and manufacturing jobs

*Michael Gasiorek, Ilona Serwicka, Alasdair Smith*

**10.40 - 11.20**

Brexit: Trade in value added

*Luca Salvatici*

**11.20 - 11.30**

Comfort break

**11.30 - 12.10**

Trade barriers to services within the Single Market

*Sebastian Benz*

**12.15 - 12.55**

UK services trade across regions and modes

*Ingo Borchert*

**12.55 - 13.40**

Lunch

**13.40 - 14.20**

The regional effects of Brexit

*Mark Thissen*

**14.25 - 15.05**

Protectionism and deskilling: Evidence from the Brexit vote

*Swati Dhingra*

**15.05 - 15.15**

Comfort break

**15.15 - 16.15**

Roundtable: What have economists contributed to the debate and what remains to be done?

*Jagjit S. Chadha*

*Namali Mackay*

*Linda Yueh*

*Chair: Chris Giles*

**16.15**

Close

## SESSION DETAILS

### MORNING

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#### **Brexit and manufacturing jobs**

**Michael Gasiorek, Ilona Serwicka and Alasdair Smith, UKTPO (University of Sussex)**

We model the effects of Brexit on output, trade and prices in UK manufacturing sectors to identify which may be most vulnerable to Brexit. The analysis is based on partial equilibrium modelling, which allows us to study the effects of Brexit at a detailed level of 122 manufacturing sectors. We find that none of the five Brexit scenarios that we model leads to a positive outcome for UK manufacturing. High tech and medium-high tech manufacturing sectors are more at risk of a significant decline in domestic production than medium and medium-low tech sectors, which has important implications for the UK Government's Industrial Strategy. There will be a more pronounced reduction in labour demand for high skilled workers than for medium and low skilled workers, and the regional impact will be greater in those areas with higher-tech manufacturing (such as the car industry). We discuss the merits of partial equilibrium modelling compared with alternative modelling approaches.

**Michael Gasiorek** is a Senior Lecturer in Economics at the University of Sussex and Fellow of the UK Trade Policy Observatory. His current academic research focuses on the way firms engage in trade and in value chains, and on the impact of trade on poverty. He is also Managing Director of a University spin-out company, InterAnalysis that offers support on trade policy and trade negotiations in particular for developing countries. Michael has more than 15 years of experience in managing large-scale international projects involving teams of people and has delivered advice and training to a wide range of governments, international organisations, and regional economic communities (such as the EAC, ECOWAS, EU). He also has extensive experience in the design and delivery of trade related training courses at various levels.

**Ilona Serwicka** is a Research Fellow at the UK Trade Policy Observatory at the University of Sussex. Previously a Researcher at the Centre for Cities, where she undertook economic and policy research into the economic performance of UK cities. With experience of analysing and interpreting large datasets, she published reports and briefings with advice for city leaders, civil service and business. Ilona holds a PhD from Newcastle University.

**Alasdair Smith** has been a Professor of Economics (now Emeritus) at the University of Sussex since 1981. He was Vice-Chancellor of the University from 1998 to 2007. His academic work focused on the effects of international trade on competition, growth and the distribution of income; and he also has interests in the economics of public sector pensions and higher education. He has written extensively on the effects of the single European market and EU enlargement on competition. He has been a member of several public sector Pay Review Bodies

and chaired the Armed Forces Pay Review Body from 2010 to 2013. He was a Deputy Chair of the Competition Commission and then an Inquiry Chair at the Competition and Markets Authority from 2012 to 2017. He is currently a member of the Determinations Panel of the Pensions Regulator and a member of the Scottish Fiscal Commission and a Fellow of the UK Trade Policy Observatory.

#### **Brexit: Trade in value added**

**Luca Salvatici, Roma Tre University**

Production networks in the European Union (EU) and the United Kingdom (UK) are highly integrated and Brexit poses a threat to supply and demand linkages across the Channel. In a world of Global Value Chains (GVC), tariffs might be more harmful than in a world where trade is purely direct. We highlight the features of GVC-trade between the EU and the UK, disentangling the complex network of bilateral EU-UK value-added flows. Four Brexit scenarios are envisaged. Simulations based on a global computable general equilibrium model allows us to compute the direct and indirect impacts of these on value added flows, taking into account the EU-UK GVC-trade patterns. Different policy scenarios have quite different impacts on different sectors and on different regions.

**Luca Salvatici**, Full Professor of Economic Policy, received his Master of Science and PhD in Agricultural and Resource Economics from the University of California at Davis. From 1991 to 2003 he was a member of the Dipartimento di Economia Pubblica, University of Roma "La Sapienza"; from 2003 to 2010 he was a member of the Dipartimento di Scienze Economiche Gestionali e Sociali of the University of Molise; in 2011 he joined the Dipartimento di Economia of Roma Tre University. Luca Salvatici is currently member of the Editorial Board of the journal *Economía Agraria y Recursos Naturales* and coordinator of the PhD program in Economics at Roma Tre University. He is a member of the International Agricultural Trade Research Consortium, and he has been involved in several research projects both at the European and national level. He has extensive consultancy experience, having completed work for The World Bank; the Food and Agriculture Organization of the United Nations; and the International Food Policy Research Institute. His most recent publications appear in: *Energy Economics*; *European Review of Agricultural Economics*; *Journal of Economic Surveys*; *Review of International Economics*; *American Journal of Agricultural Economics*; *Food Policy*.

#### **Trade barriers to services within the Single Market**

**Sebastian Benz, OECD**

The first part of the presentation will describe the methodology of the OECD Services Trade Restrictiveness Index (STRI) and present the services trade barriers captured by the Index. Subsequently, a particular focus will be given to the importance of information on services trade policies, including legislation liberalising services trade, within the EU Single

Market. Furthermore, this will illustrate the remaining services trade barriers within the EU Single Market.

**Sebastian Benz** is a trade policy analyst in the Trade in Services Division of the OECD interested in services trade, foreign direct investment and global value chains. Since joining the OECD in 2015 he has led analytical projects on services trade costs and services employment and has been responsible for reports on Australia, India and Chile. He has published several articles and contributed to books in the field of international trade. He holds a PhD in economics from the University of Munich and has been a visiting researcher at Princeton University.

### UK services trade across regions and modes

**Ingo Borchert, UKTPO (University of Sussex)**

UK services exports are quantitatively important for the UK's economy—constituting 43% of total UK exports. This study dissects and discusses UK services exports in terms of the importance of direct services trade and significance of embodied services inputs (mode 5 trade). The latter involves cross sector analysis to determine which regions specialise in which sectors, an analysis of destinations (where regions predominantly export which manufacturing products (EU vs Rest of World)) and the types of services in manufacturing exports. The authors also investigate the relationship between mode 5 exports, international integration and regional productivity divergence.

**Ingo Borchert** is a Senior Lecturer in Economics at the University of Sussex and a Fellow of the UK Trade Policy Observatory. He was previously with the World Bank where he helped construct the global "Services Trade Restrictions Database." His ongoing research focuses on trade and trade costs in services, on which he has published in leading academic journals. He has been an invited speaker on services policies at the OECD and APEC, and has recently served as Specialist Advisor to the House of Lords. He holds a Ph.D. from the University of St.Gallen, Switzerland.

## AFTERNOON

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### The regional effects of Brexit

**Mark Thissen, PBL Netherlands Environmental Assessment Agency**

We analyse the impact of Brexit on the European regional economy by studying its consequences for the competitiveness of firms. These are the short term consequences of Brexit before endogenous policies try to repair any negative consequences, or people and firms adjust their behaviour. We find that the shock due to (non-) tariff barriers on the sales price is comparable for the UK and its main trading partners in the EU. However, the UK value chain is far more integrated in the EU economy than vice versa. This makes Brexit on average hit the UK economy

much harder than the Netherlands, the country that is most severely hit after the UK. Other European countries are even less hard hit. The effects of Brexit on regional production costs and competitiveness vary because of the sectoral composition of production in different regions and the regional trade patterns of these regions.

**Mark Thissen** obtained his Master's degree from the Erasmus University Rotterdam and his PhD in Economics at the University of Groningen. He works on the economics of European economic integration and the monetary union, financial and New Economic Geography (NEG) general equilibrium models, the economic effects of infrastructure investment, interregional trade between European Nuts2 regions, and topics related to regional economic competitiveness, as well as smart specialisation. He has published widely on these topics. He is senior researcher at the PBL Netherlands Environmental Assessment Agency and project leader of several European projects (horizon2020; JRC) and projects for the Dutch government.

### Protectionism and deskilling: Evidence from the Brexit vote

**Swati Dhingra, LSE**

We study the impact of the sterling depreciation that followed the unexpected Brexit vote on workers in the UK. The depreciation raised the price of imported inputs, and industries that are more reliant on imported inputs cut back on worker training after the Brexit vote. Our results suggest that the Brexit vote is already hurting workers through its impact on training, which is an important component of human capital accumulation and intangible investments in the economy.

**Swati Dhingra** is an Associate Professor of Economics at the London School of Economics, researching globalisation and industrial policy. She is co-author of the recent "Life after Brexit" report published by the LSE's Centre for Economic Performance, which looked at the UK's options outside of the EU. She is also associate editor of the Journal of International Economics. Swati was awarded the FIW Young Economist Award and the Chair Jacquemin Award by the European Trade Study Group for her work on firms and globalization. Swati's work has informed bodies such as the Parliamentary International Trade Committee, CBI, Treasury, Social Enterprise UK, Credit Suisse and Sunderland City Council, and has featured in the media, including outlets such as the BBC, Foreign Affairs, Financial Times, The Economist, The Times and Business Standard.

## Roundtable: What have economists contributed to the debate and what remains to be done?

### **Chris Giles, *Financial Times***

**Chris Giles** became economics editor for the Financial Times in October 2004, having previously served as a leader writer. His reporting beat covers global and UK economic affairs and he writes a UK economics column fortnightly. Before joining the FT as economics editor, he was an economics reporter for the BBC, worked for Ofcom, the telecommunications regulator and started his career with seven years as an economist for the Institute for Fiscal Studies. Chris loves numbers.

### **Professor Jagjit S. Chadha, *National Institute of Economic and Social Research***

**Jagjit S. Chadha** is Director of the National Institute of Economic and Social Research. He was previously Professor of Economics at the University of Kent, and also part-time Professor of Economics at Cambridge. Jagjit has also previously been Professor of Economics at the University of St Andrews and Fellow at Clare College, Cambridge. He has worked at the Bank of England as an Official working on Monetary Policy and as Chief Quantitative Economist at BNP Paribas, and served as Chair of the Money, Macro, Finance Study Group. He has acted as Specialist Adviser to the House of Commons Treasury Committee and academic adviser to both the Bank of England and HM Treasury, and to many central banks as well as the Bank for International Settlements, and is has just stepped down as the Mercers' Memorial Professor of Commerce at Gresham College.

### **Namali Mackay, *EEF***

**Namali MacKay** is currently the Trade Advisor to EEF providing specialist advice on Brexit negotiations. She was an Australian Government trade negotiator - with over a decade of experience in WTO and FTA negotiations as well as international trade disputes. Previously she undertook a diplomatic posting to London as the senior trade specialist at the Australian High Commission in London where she managed Australia's participation in the G20 Leaders' Summit in the UK. Following her posting she remained in London and was appointed Group Head of International Relations at Prudential plc where she managed the Group's trade and international policy agenda across the ASEAN region.

### **Dr Linda Yueh, *Oxford University and London Business School***

**Linda Yueh** is Fellow in Economics at St Edmund Hall, Oxford University, and Adjunct Professor of Economics at London Business School. She is also Visiting Senior Fellow at the London School of Economics and Political Science's (LSE) foreign policy think tank, the IDEAS research centre, and was Visiting Professor of Economics at Peking University. Her new book is *The Great Economists: How Their Ideas Can Help Us Today*.

## AIMS OF THE UK TRADE POLICY OBSERVATORY

The UK Trade Policy Observatory (UKTPO) is a partnership between the University of Sussex and Chatham House. We are an independent expert group that focuses on the international trade aspects of Brexit and offers a programme of research and analysis on existing and post-Brexit options for UK trade policy.

The University of Sussex has the UK's largest collection of academic expertise on the world trading system, with specialists in economics, international relations, business and management and law. Chatham House, the Royal Institute of International Affairs, is an independent policy institute founded in 1920.

### The Observatory seeks to provide:

- Independent, original research on UK trade and trade policy
- Impartial, evidence-based policy advice to stakeholders and policymakers
- Influential commentary and new contributions to current debates
- Training on trade and trade policy for interested parties.

The UKTPO works to provide a fact-based objective account of trade policy. The Observatory is committed to connecting with a wide variety of stakeholders so as to contribute to debate on international trade policy. We strive to input directly into policymaking and engage with key policymakers as well as with those who scrutinise government and can influence policy through parliament, and specialist media. Through a comprehensive outreach programme consisting of reports, papers and blogs, media articles, events and private meetings with high-profile policymakers, the UKTPO seeks to be an influential player in the Brexit debate.

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## UKTPO BRIEFING PAPERS

1. The World Trade Organisation: A safety net for a post-Brexit UK trade policy?
2. The UK trade landscape after Brexit
3. RoOs and rules: Why the EEA is not the same as membership of the Single Market
4. Triggering Article 50 TEU: A legal analysis
5. UK-EU trade relations post-Brexit: Too many red lines?
6. Services trade in the UK: What is at stake?
7. World trade rules and the policy options for British agriculture post-Brexit
8. Brexit and government procurement
9. Will Brexit harm UK and global wine markets?
10. Can a UK-EU Free Trade Area preserve the benefits of the Single Market and the Customs Union in some sectors?
11. A UK Brexit transition: To the Ukraine model?
12. Trade and consumers after Brexit
13. Grandfathering: What appears bilateral is trilateral
14. Brexit and regional services exports: A heatmap approach
15. Certificates and Rules of Origin: The experience of UK firms
16. Which manufacturing sectors are most vulnerable to Brexit?
17. UK-EU Trade relations post-Brexit: Binding constraints and impossible solutions
18. Can CETA-Plus solve the UK's services problem?
19. Integrating sustainable development objectives into UK trade policy

### Special report

#### Changing Lanes: The impact of different post-Brexit trading policies on the cost of living

The UKTPO in conjunction with the Resolution Foundation

Please see the publications page on our website for the complete list of all of our briefing papers, blogs, parliamentary evidence, reports and academic papers: [blogs.sussex.ac.uk/uktpo/publications](https://blogs.sussex.ac.uk/uktpo/publications)

## CONNECT WITH UKTPO

The Observatory offers a wide range of expertise and services to help support government departments, national and international organisations and businesses to strategise and develop new trade policies in the post-Brexit era.

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