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| Institution: University of Sussex | | |
| Unit of Assessment: 16 – Economics and Econometrics | | |
| Title of case study: Shaping UK trade policy after Brexit | | |
| Period when the underpinning research was undertaken: 2000 – 2019 | | |
| Details of staff conducting the underpinning research from the submitting unit: | | |
| Name(s): L. Alan Winters Ilona Serwicka Ingo Borchert Michael Gasiorrek Peter Holmes | Role(s) (e.g. job title): Professor of Economics UKTPO Research Fellow Senior Lecturer in Economics Professor of Economics Reader in Economics | Period(s) employed by submitting HEI: 1999 – present 2017 – 2019 2012 – present 1991 – present 1974 – 2020 |
| Period when the claimed impact occurred: Jun 2016 – Dec 2020 | | |
| Is this case study continued from a case study submitted in 2014? N | | |
| 1. Summary of the impact <p>The UK Trade Policy Observatory (UKTPO), an interdisciplinary research centre led by economists at Sussex, has played a central role in the design of UK trade policy after Brexit, grounding the debate in robust data and realistic scenarios. Building on long-standing expertise in international trade and applied econometric analysis to inform rapid-response research on key issues, the UKTPO has provided rigorous and accessible analysis in the form of reports, videos, events, media commentary and responses to inquiries and consultations. These have helped to shape parliamentary discussions, public debate and government decisions. Many approaches to post-Brexit trade policy by central government, devolved administrations and the opposition reflect the powerful influence of UKTPO research, including a policy statement by the Prime Minister.</p> | | |
| 2. Underpinning research <p>The vote to leave the EU was a huge shock in a country with limited official, media or academic capacity to analyse market integration and trade policy, and followed a referendum characterised by a lack of clear information. Sussex, which has long specialised in international trade, responded rapidly by establishing the UKTPO in late June 2016 to provide immediate authoritative analysis to help reconfigure UK trade policy. The UKTPO assembles the country's largest collection of academic expertise on the world trading system, with specialists in economics, law, international relations, business and management. This case focuses only on the economists' research.</p> <p>Brexit requires a wholly new set of trading relationships. The UKTPO's ability to navigate these credibly derived from the breadth of its prior research, which covered most aspects of trade policy. UKTPO fellows (not all represented in publications listed here) had published over 190 journal articles from 2000 to June 2016, including in one top-5 and several 4* journals.</p> <p>Brexit was unforeseen and the dissolution of deep trading arrangements is almost entirely unresearched. Moreover, the Brexit timetable was much shorter than the typical research project. Hence the requirement was to apply existing evidence and expertise to the new circumstances and get results out quickly and accessibly to inform debate and policy formulation. The body of research underpinning this case combines work conducted prior to 2016 (and is thus not Brexit-specific) and after June 2016 (published in more policy-focused outlets). The former include:</p> <p>[R1] shows that membership of a free trade agreement (FTA) leads to improvements in partners' terms of trade. The corollary is that leaving an agreement (like the EU) will almost certainly worsen the terms of trade and lead to significant losses of economic welfare.</p> <p>[R2], the first study of how accession to the European Economic Community affected the distribution of UK manufacturing jobs, with migration to the south and east as UK-Europe trade grew. Similarly, Brexit will have heterogeneous regional effects.</p> <p>[R3] shows the importance of distance, cultural affinity and policy restrictions in the determination of mergers and acquisitions in services sectors. Maintaining flows of foreign direct</p> | | |

investment in the face of Brexit-induced business frictions is a major objective of government policy. The UKTPO used insights from this paper in analysis (published and presented privately to FCO) of a potential UK-Korea FTA.

UKTPO publications focused more directly on immediate trade policy questions include:

[R4] addresses the likely job losses from Brexit at the level of 122 manufacturing sectors, estimating that all forms of Brexit will raise prices for UK consumers and producers and reduce exports; it will reduce output in all but the few sectors that sell mainly into highly protected UK markets. There are significant differences between high-tech and lower-tech sectors.

[R5] estimates the effects of Brexit on jobs at regional and constituency levels. Its innovation is to analyse commuting patterns and so estimate job losses by residence rather than just workplace.

[R6] set out, in 2016, the negotiating challenges facing the UK under Brexit, including challenges of Rules of Origin in an FTA with the EU, the need for a transition period, the need to roll-over the Generalized System of Preferences, the case for joining the Trans-Pacific Partnership and the fact that tariff-rate quotas would hinder renegotiation in the World Trade Organization (WTO).

3. References to the research

- R1. Chang, Won, and **L. Alan Winters**. (2002) 'How Regional Blocs Affect Excluded Countries: The Price Effects of MERCOSUR.' *American Economic Review* 92 (4), pp. 889-904.
<https://dx.doi.org/10.1257/00028280260344515>
- R2. Overman, Henry and **L. Alan Winters** (2011) 'Trade and Economic Geography: The Impact of EEC Accession on the UK.' *The Manchester School*, 79 (5), pp. 994–1017.
<https://doi.org/10.1111/j.1467-9957.2010.02171.x>
- R3. Barattieri, Alessandro, **Ingo Borchert** and Aaditya Mattoo (2016) 'Cross-border mergers and acquisitions in services: the role of policy and industrial structure.' *Canadian Journal of Economics*, 49 (4), pp. 1470-1501. <https://doi.org/10.1111/caje.12241>
- R4. **Gasiorek, Michael, Ilona Serwicka**, and Alasdair Smith (2019) 'Which manufacturing industries and sectors are most vulnerable to Brexit?' *The World Economy*, 42 (1), pp. 21-56.
<https://doi.org/10.1111/twec.12757>
- R5. **Serwicka, Ilona, L. Alan Winters** and Yi Jiang (2018) 'The Brexit burden: a constituency level analysis for Hampshire and Sussex.' UKTPO Briefing Paper 26, extended to all constituencies, <https://blogs.sussex.ac.uk/uktpo/files/2018/12/632-constituencies-Data-no-deal.pdf>.
- R6. **Holmes, Peter, Jim Rollo** and **L. Alan Winters** (2016) 'Negotiating the UK's Post-Brexit Trade Arrangements.' *National Institute Economic Review*, 238 (1), pp. R22-R30
<https://doi.org/10.1177/002795011623800112>

R1-3 are in internationally-recognised journals which have rigorous peer-review processes.

4. Details of the impact

The UKTPO's central objective has been to guide the formulation of UK trade policy in a way that delivers the best achievable outcome from Brexit and post-Brexit trade policy. While politics has ultimately dominated decision-making, the Observatory's broad-based engagement has strongly influenced post-Brexit trade policy by shaping debate and facilitating public scrutiny. It has widened understanding, changed attitudes and improved capacities among policymakers – and thus influenced policy indirectly as well as contributing to policy directly, including the 'prevention of harm'.

Shaping the debate

In addition to academic outputs and frequent public events, from June 2016 to 30 December 2020 the UKTPO published 51 briefing papers, 187 blogs on its own website (over half a million total views), and a range of multimedia outputs on trade policy: infographics, podcasts and animated videos. UKTPO researchers have written numerous guest blogs and contributed to hundreds of media articles through their publications and interviews each year (214 in 2020 with a potential combined audience of at least 1.14 billion, based on official audience and readership figures for each media outlet - **S1**). The animated videos have been used by third parties to

explain trade: e.g. 'Which?' used them in its National Trade Conversation and commented "Your videos really helped people to understand the issues" (**S2**). UKTPO research has contributed to informing public understanding of trade policy challenges, often being the first to introduce key issues to the public. The Department for International Trade's (DIT) chief economist wrote "We value UKTPO's contribution to raising standards, which adds significantly to the quality of public discourse on trade and on trade policy" (**S12**).

Providing public scrutiny

Since June 2016, UKTPO fellows have submitted written or oral evidence to four government consultations and 37 UK parliamentary inquiries on trade issues. These submissions have been cited in several of the resulting committee and House of Commons Library Reports. The latter's report on services trade made 27 references to UKTPO analysis (**S3**). UKTPO inputs have been acknowledged [text removed for publication] as influential, highlighting issues of concern to parliamentarians, aiding the scrutiny of policy proposals and contributing to their analysis of trade policy [**R3, R6**]:

[text removed for publication] (**S4a**).

[text removed for publication] (**S4b**).

Key contributions to scrutiny include:

The difficulty of signing trade agreements: The UKTPO has consistently noted the challenges of merely rolling-over existing trade agreements – and challenged UK Government announcements about them. Only seven out of 40 that needed rolling over had been signed by the initial Brexit Day (29 March 2019) and none replicated the status quo precisely. [text removed for publication] (**S4a; S7: D, F, G**).

The costs of 'no deal' for manufacturing industry: The UKTPO published detailed modelling results of the effects of 'no deal' [**R4**]. This led to a project with EURIS, a trade association of manufacturers with a combined turnover of around £148 billion and 1.1 million employees, to help members comprehend the challenges and engage with government to explain the importance of frictionless trade with the EU for UK manufacturing. Much of this was done privately, but the final report was discussed with ministers and received strong media attention (**S1**). The Legal Director of BEAMA (Legal Advisor to EURIS) remarked:

"UKTPO's work on this project was extremely valuable, indeed essential in allowing the EURIS trade bodies and their members to understand ... the enormous challenges which fundamental changes in international trading terms would present. Further it also allowed EURIS to present this analysis to the UK government ... and achieve significant changes to government policy to mitigate the damage that a full severance of UK alignment with EU structures would cause" (**S5, S7: L**).

The local effects of Brexit on jobs: Building on [**R2**], the UKTPO estimated the effects of Brexit by constituency and region [**R5**]; the results were discussed extensively in the media (**S1**) and were mentioned six times in Parliament (**S7: M, O, Q, S, T, V**).

Northern Ireland (NI): Winters submitted Expert Witness Evidence to the Scottish Court of Sessions in November 2019 showing that 75% of imports into NI would be subject to tariffs defined by the EU rather than the UK. The UK Government's eventual response was to propose an Internal Market Bill that abrogated that part of the Withdrawal Agreement. Subsequent analysis for the Welsh Government explored the effects of the NI Protocol on Wales and underpinned that Government's decision to refuse consent for the Withdrawal Act in January 2020 (**S6a**).

[text removed for publication] (**S6b**). See also in Parliament (**S7: W**).

Influencing policy

UKTPO research has been cited in Parliament 31 times (**S7**) and regularly used by DIT. DIT's chief economist wrote:

"at the working level, colleagues make substantial use of the wide range of briefing papers and blogs which UKTPO have published.... We have good access to expertise and thought leadership ... of the UKTPO... These sessions strengthen the advice that

we forward to senior officials and ministers as the basis for policy decisions, such as drawing up priorities in negotiations of trade agreements”, and “We know we can rely on high-quality analysis but also a solid understanding of the policy framework we operate within. Crucially, within DIT we often talk about whether our own analysis will pass “the UKTPO test” when it gets into the public domain: notwithstanding our highly collaborative relationship, we know UKTPO will be first to challenge our analysis if we do not maintain the same high analytical standards” (S12).

Transitional arrangements: The UKTPO outlined the need for a transition period in October 2016 (Briefing Paper 2 and [R6]) and explicitly noted that it needed to replicate current conditions. Following private meetings with the UKTPO, the opposition made the case “to stay inside the single market and abide by all EU rules during the transitional period and possibly beyond” (S8b). Subsequently, the Government accepted the former as policy in July 2017 (S8c).

Customs Union: This was a contentious issue in the debate about what kind of Brexit should be pursued. In February 2018, following further meetings with the UKTPO, Labour argued for seeking a customs union in the long run. During spring 2019 the debate and cross-party talks revolved almost entirely around Labour’s demand that the future trade arrangement with the EU include a customs union. Referring to these discussions, [text removed for publication] (S8a).

Trade policy with developing countries: In September 2016, the UKTPO explained the overwhelming case for continuing ‘Everything But Arms’ trade preferences for least developed countries. In July 2017, the UK Government stated its intention to do so in accordance with UKTPO recommendations (S9a). [text removed for publication] (S9b).

Freeports: Widely publicised UKTPO research has shown that Freeports offer little prospect of significant economic benefits for the UK. This “help[ed] shape thinking surrounding freeports” in the Scottish Parliament (S7: Y), which subsequently defined policy “that it would turn down Chancellor Rishi Sunak’s offer of introducing free ports in Scotland” (S10).

Export Restrictions: UKTPO research on export restrictions (Briefing Paper 40) was the first to describe a reciprocal trade bargain for COVID-critical goods whereby WTO members commit not to increase import restrictions on medical goods after the COVID crisis abates and, in return, exporters constrain (not abolish) their ability to limit exports of such goods. This, and many of the practical details provided in that paper, was adopted as UK policy (S12), and was described in the following terms by the UK Prime Minister in his speech to the UN General Assembly:

“So I would urge every country to take a fifth step and lift the export controls wherever possible – and agree not to revive them – and cancel any tariffs on the vital tools of our struggle: ... The UK will do this as soon as our new independent tariff regime comes into effect on 1st January and I hope others will do the same” (S11).

5. Sources to corroborate the impact

- S1. Media list
- S2. Email from Sue Davies, Head of Consumer Protection and Food Policy at ‘Which?’ on underpinning ‘Which?’s *National Trade Conversation, November 2020*
- S3. Parliamentary report, House of Commons Library, Trade in services and Brexit: <https://commonslibrary.parliament.uk/research-briefings/cbp-8586/#fullreport>
- S4. [text removed for publication]
- S5. Letter from Andrew Wilman, Legal Director, BEAMA (Legal Advisor to EURIS)
- S6. Welsh Government:
 - a) The Future UK/EU Relationship Negotiating Priorities for Wales (20 Jan 2020): https://gov.wales/sites/default/files/publications/2020-01/the-future-uk-eu-relationship_0.pdf and
 - b) [text removed for publication]
- S7. List of mentions in Parliament of UKTPO research, outputs and analysis June 2016-31 December 2020
- S8. UK Labour Party policy position, as reported in:
 - a) [text removed for publication]

- b) 'Labour makes dramatic Brexit shift and backs single market membership', *The Guardian*, (26 August 2017): <https://www.theguardian.com/global/2017/aug/26/labour-calls-for-lengthy-transitional-period-post-brexit> and
- c) 'UK's Brexit transition plans released', *BBC*, (21 February 2018): <https://www.bbc.co.uk/news/uk-politics-43139703>

S9. DFID Policy Position as reported in:

- a) 'Free trade deals for 'poorest countries' to be maintained post-Brexit', *BBC*, (25 June 2017): <https://www.bbc.co.uk/news/uk-40395742> and
- b) [text removed for publication]

S10. Freeports, as S7: Y and reported in 'North-east MSP blasts Scottish Government over free port plans', *Evening Express*, (10 October 2020): <https://www.eveningexpress.co.uk/fp/news/local/north-east-msp-blasts-scottish-government-over-free-port-plans/>

S11. Export restrictions on medical goods: Prime Minister's position on export restrictions as per his speech to United Nations General Assembly, 26 September 2020: <https://www.gov.uk/government/speeches/prime-ministers-speech-to-un-general-assembly-26-september-2020>

S12. Letter from Chief Economist of the UK Department for International Trade