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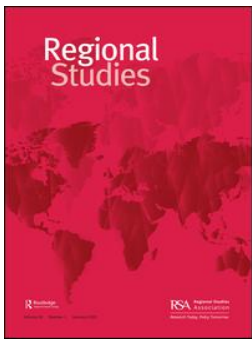
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# UK analysts' and policy-makers' perspectives on Brexit: challenges, priorities and opportunities for subnational areas

Chloe Billing<sup>a</sup> , Philip McCann<sup>b</sup>, Raquel Ortega-Argilés<sup>c</sup>  and Deniz Sevinc<sup>d</sup> 

## ABSTRACT

This paper explores the perspectives of expert analysts and policy-makers on the implications of Brexit for different parts of the UK economy. For local and regional areas, the need for such expert voices to be heard is urgent, given the fact that UK subnational and substate governance authorities have been effectively blocked out of all Brexit-related negotiations, and as such, are wholly unprepared for the post-Brexit realities. The issues discussed in this paper reflect the key themes that came out of four regional stakeholder participatory symposia organized by The UK in a Changing Europe (UKICE), which were held in Leeds, Birmingham, London and Edinburgh, and that focused on the Brexit-related economic and governance challenges for the different parts of the UK. These issues are examined in the light of the recent 'levelling-up' agenda prioritized by the UK government.

## KEYWORDS

Brexit; UK regions; devolution; services; value chain

JEL R12, R58, R59

HISTORY Received 13 December 2019; in revised form 6 August 2020

## INTRODUCTION

This paper explores the perspectives of expert analysts and policy-makers on the implications of Brexit for different parts of the UK economy. The aim is to provide an analytically, conceptually and empirically robust picture of the emerging subnational and substate challenges. It directly responds to the concern that 'experts', and especially economists, were derided and largely undermined during the European Union (EU) Referendum debates, such that expert opinions on the economic effects of Brexit were largely overtaken by cultural and political narratives. For local and regional areas, the need for expert voices to be heard is urgent, given the fact that UK subnational and substate governance authorities have been effectively blocked out of all Brexit-related negotiations, and as such are wholly unprepared for the post-Brexit realities (Billing et al., 2019). This relates to how both during the 2016 EU


Referendum debates, and in the period through until late 2019 there was very little direct mention of the potential UK regional implications of Brexit. Moreover, the lack of expert opinion of regional issues in public debates was exacerbated during the tenure of the Theresa May government between 2016 and late 2019, when regional issues per se disappeared almost entirely off the government's domestic agenda and played no part whatsoever in the ongoing UK–EU negotiations from the spring of 2017<sup>1</sup> until the autumn of 2019 (Billing et al., 2019).

The aim of this paper is therefore explicitly to give voice to expert opinions, and especially to those focusing on the regional and sectoral implications of Brexit. The fact that UK domestic politics and political narratives have recently changed in favour of addressing regional issues does not necessarily mean that the underlying issues and challenges have changed. A serious policy response to these issues, therefore, requires that expert opinions are

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indeed again given a voice and valued so that policy is based on the most robust grounding.

To make sense of these different discussions, it is first necessary to be cognisant of the context. The UK today exhibits amongst the largest interregional inequalities of any country in the industrialized world (McCann, 2020). To use terminology from the new economic geography literature, what we see is that the UK economy exhibits a remarkable core–periphery or core–non-core interregional economic structure, whereby the core regions are the London economy plus all the South East, many parts of the East and the South West, while the rest of the UK represents the periphery or non-core areas. The core areas are far more prosperous on almost every dimension than the non-core areas (McCann, 2020), and this dichotomy is also reflected in governance and political accessibility, given the highly centralized nature of the UK state (McCann, 2016). As such, the economic and institutional concerns of the non-core parts of the economy tend to be very different from those typically articulated in or from London and the other core parts of the UK. Citizens' dissatisfaction with the status quo, especially in the non-core regions of England, is very real, and the Leave campaign effectively fused their dissatisfaction with the membership of the EU (Denham, 2019). As we will see below, the 'geography of discontent' (McCann, 2018, 2020), which was heavily reflected in the Leave-voting patterns, and especially in places with a local sense of being 'left behind' (Rodriguez-Pose, 2018), resulted paradoxically in *economic* terms of places voting against their interests (McCann, 2018), largely irrespective of the level of EU policy engagement in these regions (Crescenzi et al., 2019; Fidrmuc et al., 2019).

The remainder of the paper is structured as follows. The second section outlines the methodology for this paper. The third section discusses the insights from the Birmingham symposium; the fourth section from the Leeds Symposium; the fifth section from the London symposium; and the sixth section from the Edinburgh symposium. The final section discusses the issues arising and gives some conclusions.

## METHODOLOGY

The issues discussed in this paper reflect the key themes that came out of four regional stakeholder participatory symposia organized by The UK in a Changing Europe (UKICE), which were held in Leeds, Birmingham, London and Edinburgh,<sup>2</sup> and that focused on the Brexit-related economic and governance challenges for the different parts of the UK. Whereas research on citizens' attitudes and perceptions of Brexit-related issues almost always focus on the general public, these four workshops intentionally sought and reflected the views and concerns of high-level policy-makers and analysts to provide something of a counterbalance to an overwhelming dominance of general public perceptions. Although in certain political quarters the view of such 'experts' have been ignored (*Financial Times*, 2016), for this paper the views of

experts on different Brexit-related issues are explicitly valued, precisely because many of the issues are so complex that they require real expertise to be reasonably understood. The analysts and policy-makers participating in the symposia included experts in the fields of regional economic development, governance, social systems, public finance, business, trade policy, industry, higher education and migration. Experts in the form of either short talks or panel discussions gave all the presentations at the symposia, but members of the general public did attend each symposium and were able to engage in questions and discussions with the presenters and panellists. There were participants from across the whole of the UK in each symposium.

The Leeds symposium concentrated on the challenges facing the cities and towns across the North of England in the context of emerging city-region devolution; the Birmingham symposium focused on the challenges facing the manufacturing and logistics sectors across both the Midlands economy and the wider UK; the London symposium examined the implications of Brexit for London-based services industries; and the Edinburgh symposium concentrated on the challenges facing the three devolved administrations of Scotland, Wales and Northern Ireland. Taken together, the symposia involved more than 250 participants, with over 50 speakers,<sup>3</sup> presenters and panel discussants presenting their analyses and responding to questions from the audience. Given that the themes of each workshop were different, different insights arose from each meeting. However, one underlying theme was common in the symposia, in that the focus was very much on the local and regional implications of Brexit in the respective regions in which the symposia were held.

The unique contribution to the knowledge of the views reported here is that these opinions represent, at the time of enquiry between spring 2017 and summer 2018, the most high-level and wide-ranging portfolio of expert views on the UK regional and sectoral implications of Brexit yet assembled and expressed within a single qualitative research framework. These expert insights must now be rehabilitated and once again explicitly reintroduced into the policy debates to ensure that the emerging policy schema is set squarely on a sound footing.

Since these interviews were conducted, a lot has changed in the UK, namely: that the UK officially left the EU on 31 January 2020; the May government was replaced in December 2019 by a new government under Boris Johnson with a core mission of 'levelling-up' the UK interregional economy; and in early 2020 the coronavirus crisis emerged, a crisis which has the potential to further exacerbate UK interregional inequalities (*The Economist*, 2020), although as yet it is too early to fully assess the regional implications. At the same time, the current trajectory of the Johnson government's political logic is towards something of a much 'harder' Brexit than under the May government, with much greater border friction for all sectors, and as we will see here, there are fundamental

contradictions between the Brexit logic and the levelling-up logic which hardly ever appear in public debates.

## BREXIT, UK-BASED MANUFACTURING AND UK-EU SUPPLY CHAINS

The symposium in Birmingham was focused on the implications of Brexit for UK manufacturing, including all the impacts on UK supply chains, which include many small local firms that themselves may not directly export, but are embedded in complex cross-border value chains. The discussions at the meeting centred on the manufacturing and engineering sectors of the Midlands regions, which are still critical to the economies of these regions, and especially in sectors such as automotive, aerospace, pharmaceuticals and chemicals. Brexit poses major challenges for these sectors because of UK manufacturing's high dependence on complex pan-EU value chains. UK manufacturing is more exposed to Brexit than any other sector (Chen et al., 2018), and advanced manufacturing, in particular, is a key sector in the wider Midlands economy (West Midlands Combined Authority (WMCA), 2019).

advanced manufacturing is high tech stuff and it employs people. And the big challenge is how we are going to retain that, where we have supply chains that cross into and out of Europe, where the value proposition for this region has been come here, as a bridge, into Europe.

(Professor Nigel Driffield, Warwick Business School)

Within Midlands manufacturing, by far the most important export sector is the automotive industry. The automotive sector is one of the most exposed sectors to Brexit (Los et al., 2018; Ortega-Argiles, 2018, 2019), given that it is heavily embedded in cross-border supply chains, and also because the industry is currently undergoing major technological disruption as well as facing excess capacity in Europe (Bailey, 2019).

the two key areas are for me model investment and supply chain. Are cars going to get made here in the first instance and then from a supply chain perspective, can we actually deliver the components and make it work? ... If it becomes cost uncompetitive to make the vehicle here then they'll move it, because they're looking at a global market.

(Justin Benson, KPMG Automotive)

The concern is that any adverse Brexit-related impacts on Midlands manufacturing in general, and especially the automotive sector, will have significant economic implications for the region as a whole, given both the large regional employment effects and the wider multiple impacts on a whole host of other local sectors. Across the UK, manufacturers have very serious concerns about the UK-EU deal brokered by the Johnson government (*The Guardian*, 2019c), which potentially will provide for significantly reduced access to European markets (UKICE, 2019). Most UK-based exporting firms are still wholly unprepared for Brexit (*The Guardian*, 2019a).

As of October 2019, only 10% of the UK exporting firms that will need to declare customs filings had applied for transitional customized procedures (*The Guardian*, 2019b). Firms in the Midlands regions are no different to anywhere else. Brexit is likely to lead to significant trade falls for the region. In addition to reductions in access to European markets, the region has in the past also secured large amounts of EU Structural Funds as well as research-related funds, and concerns are raised regarding what the regionwide implications of the loss of these funds might be.

Cities like Birmingham have accessed in the last 25 years over a billion pounds worth of funding that's had huge investments in this city from both business support, physical infrastructure support, employment, and skills support. Once that is lost, what replaces it, how is it replaced?

(Lloyd Broad, Birmingham City Council)

Although both the West Midlands and East Midlands regions as a whole voted to leave the EU, some localities within these regions voted very strongly for Brexit. In many localities the margins of votes were very narrow, and some localities voted pro-Remain, implying that that local Brexit-related views of the general public were not always clear-cut. In terms of economic development issues, many of the local policy-makers and analysts in these regions harbour serious concerns regarding the medium and long-term implications for the wider Midlands region's future. The region has traditionally been a base for significant inward foreign direct investment focused on EU markets, but once the UK loses Single Market access, then the future prospects for much of the investment would appear to be very limited. The region's manufacturing sectors will face significantly reduced access to the EU Single Market and many of the pan-EU supply chains which UK manufacturers are already part of are likely to be restructured and reconfigured away from UK producers. Given the geography, UK firms will be unable to reconfigure their supply chains towards non-EU global value chains (Los et al., 2017) to any degree sufficient to offset the losses of EU markets. Given the economic structure of these regions, these losses are likely to lead to adverse implications for local economic development, implications which will be amplified by losses of EU urban and regional development support.

## BREXIT AND THE UK'S ECONOMICALLY NON-CORE REGIONS

### Northern regions' challenges

These same themes re-emerge and were discussed at the symposium in the North of England, which focused on the economic and policy concerns of the UK's non-core northern regions. In the North of England there are widespread concerns amongst analysts and policy-makers that a hard Brexit type of scenario will trigger and even amplify various longstanding structural problems faced by the region, such as inadequate transportation, a relatively



low-skilled population and weak local innovation strategies. These concerns arise because the large majority of the available evidence suggests that northern regions are heavily exposed<sup>4</sup> to Brexit-related trade (Chen et al., 2018; Los et al., 2017) and competitiveness risks (Thissen et al., 2019), and the likely adverse economic impacts on the region need to be countered with appropriate post-Brexit policy and governance responses. In particular, the manufacturing industry continues to have a vital role to play in the northern regions, and Brexit has the potential to be a deflating factor in the future performance of manufacturers. ‘So, for those of us in the North, the really important economic challenge that we face after Brexit is the fact that a lot of our economies are based around manufacturing ... and the services rely on that manufacturing base’ (Alison McGovern, MP for Wirral South<sup>5</sup>).

This raises complex questions regarding trade policy and practice, not only for the manufacturing sector but also for agriculture.

Will our farmers still be part of a European wide agricultural market with agreed levels of subsidies across Europe to farmers, or not? That’s crucial for an area that exports a lot of its agricultural products to the rest of Europe.

(Richard Corbett, MEP for Yorkshire and the Humber, and Leader of the UK Labour Party in the European Parliament)

## GOVERNANCE CHALLENGES

At the same time, there was pragmatism in terms of responses to these challenges and risks. ‘I think there are – or there is the potential for us, to open up new trade deals and to look at what we can do in regard to those historic linkages that we have with North America especially, for across the further globe’ (Mayor Steve Rotherham, Liverpool City Region).

Many stakeholders accepted that Brexit will take place, irrespective of their personal preferences, and that a proactive policy stance were needed. However, in considering such responses, three themes kept on recurring in the debates, namely: governance challenges; the challenges facing different types of places in the North; and the impacts of the loss of EU Structural Funds.

The impacts of Brexit on the governance of local and regional economic development was a major theme of the Leeds workshop, but these concerns were set within a larger context, predating the EU Referendum, concerning institutional and governance challenges. In particular, local and regional development policy in the UK during the last decade has been very ad hoc and fragmented, and this potentially limits the ability of regions to prepare for and respond to Brexit (Billing et al., 2019). The 2010 disbanding of the regional development agencies (RDAs) and the government offices for the regions (GORs) and their subsequent replacement with local enterprise partnerships (LEPs) represented a policy, and governance underpinned by little or no real structured thinking. Since then, the UK has also experienced a movement

towards the creation of city-regions, whereby individual city-region ‘deals’ are determined via a bilateral process of negotiation with The Treasury, such that each city-region deal is not only different to the others in terms of their devolved powers, but also they often have a different legal basis and a different institutional setting when compared with other city deals (O’Brien & Pike, 2015). On top of this, more recently the UK government has launched its national industrial strategy (HM Government, 2017) in which ‘local industrial strategies’, spearheaded by the LEPs or city-regions, are a central plank of the national strategy. As such, the UK is increasingly characterized by a rather ad-hoc patchwork of different development geographies depending on the policy funding stream, and many of these policy geographies either overlap or fail to dovetail neatly onto each other. This means that in some parts of the country there are currently real difficulties in coordinating interventions and actions across different themes or sectors because there are no common geographical reference points. This problem is especially acute outside the major urban areas.

Another issue that also shaped some of the discussions at the meeting were the issues regarding the likely differing Brexit-related experiences and responses of northern cities and towns. Recently, a powerful UK-wide political narrative has emerged, which itself was initially heavily based on the voting patterns of the 2016 EU Referendum, and which posits that the economic fortunes of British cities and towns have diverged, with towns being largely ‘left behind’. This narrative was initially primarily associated with the Centre for Towns (Jennings et al., 2017), but this line of thinking has also spread more widely throughout the UK political arena. This cities versus towns-type thinking has also been heavily bolstered by journalistic (Goodhart, 2017) rather than academic arguments, which contend that the broadly buoyant economic experiences of UK cities in recent globalization processes mean that they are also diverging in terms of social attitudes from smaller towns and rural areas, places which are deemed not to have enjoyed such buoyancy. In particular, these narratives contend that attitudes and attachment to place and locality nowadays differ profoundly between cities and towns, with urban cities displaying only a very limited sense of place attachment,<sup>6</sup> while towns and rural areas display a much stronger sense of place. These purported attitudinal differences are also widely interpreted in many political and media arenas as critically shaping the geography of the Brexit vote.<sup>7</sup> However, these narratives are largely based on a misunderstanding of the economic evidence. The notion that urban areas and their ‘metropolitan elites’ have gained all the benefits of globalization, while small towns and rural areas have been left behind, is almost entirely false. While there is some truth in these notions in countries such as the United States and Australia, the experience of the UK is profoundly different. While former industrial towns have continuously declined for four decades (Beatty & Fothergill, 2020), at a national level the productivity problems of the UK over more than 30 years are primarily due to the

underperformance of large cities outside of the South of England and central Scotland (Martin et al., 2018; McCann, 2016). Indeed, the empirical data suggest that the UK prosperity gap between cities and towns is one of the smallest in the Organisation for Economic Co-operation and Development (OECD) relative to the regional inequalities (McCann, 2019). Even so, the 'cities versus towns' notion is now a powerful political narrative shaping policy thinking and again suggests that political expertise is more persuasive than economic expertise.

### The impacts of the loss of EU funds

All these developments and narratives are taking place at the same time as there is currently little or no clear understanding as to the likely outlines of the policy schema that will replace EU Structural Funds. The new policy set-up is to be known as the 'Shared Prosperity Fund', but currently there is almost no information available about what the new policy architecture or logic will entail, creating a policy hiatus across the economic development community in many parts of the UK, and especially in those areas which tended to be the most dependent on EU Structural Funds for their investments.

EU Cohesion Policy had a clear NUTS-2 spatial logic to it, and before 2010 within the UK the managing authorities for EU Cohesion Policy were the three devolved administrations (Scotland, Wales and Northern Ireland) plus the nine GORs within England. With the advent of the new Coalition government of 2010, all Cohesion Policy managing authority functions for England, which had previously been devolved to nine GoR areas, were consolidated into a single central government function. This consolidation made England by far the largest single managing authority amongst all managing authorities responsible for the 250-plus NUTS-2 regions across the EU, at almost five times larger than any other managing authority. This reorganization was based entirely on political grounds, and at least conceptually, if not also operationally, it went entirely against all the post-2014 EU-wide Cohesion Policy reforms that had been implemented based on the fundamental process of reflection originally initiated by the Barca (2009) report.

Given these concerns, the departure of the UK from the EU Structural Funds programmes might pose particular challenges and also offer some opportunities, depending on the UK's ability to maintain or enhance policy coherence. There was a sense amongst delegates that following the UK's withdrawal from the EU, it is necessary to improve the targeting of regional development funds beyond that which was evident with the EU Structural Funds, some of which was based on debatable geographies.

we do have an opportunity to take those EU structural funds, which are currently not very well targeted ... if we make it a flexible fund that focuses not only on how to grow enterprise and investment, and investment and infrastructure on the one hand, but actually connect that up to the skills and

training programmes that will enable people currently experiencing poverty to be able to actually access those opportunities.

(Katie Schmuecker, Head of Policy at the Joseph Rowntree Foundation)

Indeed, the importance of governance reforms for economic development in the post-Brexit context was echoed by many participants. 'So crucial things will be trying to decentralise in ways that provide powers and resources to institutions on the ground, to be able to address these kinds of structural issues in cities and regions across the North and beyond.' (Professor Andy Pike, Newcastle University). Yet, the need for an enhanced place dimension also raises many new questions and challenges on which participants had some strong views.

I'm particularly keen that the funding should not just be focused on the core cities ... and it's important that policy-makers ... recognise the value and importance of places that are not the core cities, because they too are home to taxpayers, and they're also some of the places that voted for Brexit.

(Dr Sarah Longlands, Director of the Institute for Public Policy Research North)

In general, the consensus from the delegates in the Leeds meeting was that 'in many ways, Brexit is kind of amplifying or intensifying a lot of these issues, which we've been having to face and grapple with, with local, urban and regional policy in the North for many decades' (Professor Andy Pike, Newcastle University), and that the northern regions urgently need the powers and resources to respond to the potential impacts of Brexit, many of which are likely to be especially severe in these regions. The UK already exhibits enormous regional inequalities, and these may well be increased precisely because of Brexit (Billing et al., 2019; Chen et al., 2018; Los et al., 2017; Thissen et al., 2019), and indeed, intra-regional disparities are also likely to increase (Thissen et al., 2019).

## BREXIT AND SERVICES

Given the nature and structure of the London economy, the priority concerns raised at the symposium in London tended to be very different from those raised in the other three meetings. The three main concerns discussed were the potential effects of Brexit on the London economy associated with reduced access to European markets for service industries, and especially financial services industries; reduced immigration from Europe; and also the implications of Brexit for higher education.

### Services

The implications of Brexit for the UK-based services industries are largely under-reported and under-discussed, given their scale and importance in the UK economy and their interaction with EU markets. These issues are especially pertinent in the case of the London economy,

which not only is dominated by service industries but also is the core region underpinning UK services exports.

The UK is the second largest exporter of services in the world, and the services industries are the backbone of the London economy. The implications of Brexit on services will therefore potentially have a significant effect on the London economy. A recent study (Borchert & Tamberi, 2018) shows that the value of services inputs into manufacturing exports exceeds £50 billion a year. This is particularly notable in London, because London's total services exports as a percentage of gross value added (GVA) is close to 25%, followed by the South East region, which is around 10%. Thus, for the UK in general, and particularly for London, the UK must reach a deal that minimizes the disruptions to services trade for the economy in order for the UK economy to thrive after Brexit.

A lot of service sectors that export to the European market use a number of ways to trade services. They trade services electronically across the border, they establish commercial presence, and they send people to Europe or receive them as employees. The European legal framework supports this in a particular way. It will be very important going forward post-Brexit. It will be important ... that the regulations are as much as aligned as possible for British businesses to continue to do so.

(Dr Ingo Borchert, University of Sussex and UK Trade Policy Observatory)

Research shows that although service industries are relatively much less exposed to Brexit than manufacturing or agricultural industries, in total across the UK it is the service industries which are most exposed to Brexit, simply due to their relative contribution to the overall economy along with their inputs into other manufacturing and agricultural economies (Los et al., 2018). In terms of concerns regarding London-based services industries, there was, therefore, a general consensus in the London meeting that a 'hard Brexit', or something close to a hard Brexit, in which there would be new and major trade barriers between the UK and the rest of the EU, would severely damage the professional services sector and the firms involved, especially in terms of firms' ability to work across the EU.

The Managing Partners' Forum, led by Richard Chaplin, which represents thousands of professional services firms, surveyed<sup>8</sup> in January 2018 and presented their findings as evidence to a hearing of the House of Lords EU Internal Market subcommittee (held on 31 January 2018). Their key findings suggested that in terms of contingency planning, some 77% of respondents were analysing their options and that 20% of firms were already implementing contingency plans. Some 37% of respondents also report that more than 50% of their clients were in the process of planning for Brexit. In terms of the different Brexit scenarios, respondents anticipate a short-term boost to their firm's financial performance followed by a modest decline under a soft Brexit scenario, but a significant decline under a hard Brexit scenario. Under a

hard Brexit, the survey respondents expected that their revenues from EU-27 clients would decline by more than any new revenues arising from clients in other countries and that work for EU-27 clients would be increasingly serviced from non-UK offices. In terms of human capital and talent, some 54% of the survey respondents considered the recruitment of non-UK nationals to be either essential or important for their firms. Moreover, 48% of respondents often send their UK nationals to EU-27 countries to deliver services to local clients temporarily.

In consideration of these findings, Chaplin (2018) suggest three top priorities for the UK government to assist professional firms to navigate Brexit, namely: maintain freedom of movement for EU-27 nationals; withdraw Article 50; and focus on making the UK a more attractive place to do business. '[T]he professions are people business service industries, so people businesses, and access to talent is probably one of the most important areas' (Richard Chaplin, Managing Partners' Forum).

Within the service industry in general there is the particular case of financial services, which are the dominant core exporting sector within the London economy, and the prosperity of the London economy is intrinsically related to the performance of international financial services. '[T]he Government's negotiations deal with financial services in particular ... will determine how well the London economy continues to do' (Professor Tony Travers, London School of Economics). On this point, Oliver Wyman (2018) assessed the current and likely post-Brexit contributions of the financial services industries to the UK economy and found that currently the UK-based financial services sector substantially contributes to the UK economy, and the sector as a whole annually earns approximately £190–205 billion in revenues, contributes £120–125 billion in GVA and, together with the 1.1 million people working in financial services around the country, generates an estimated £60–67 billion of taxes each year. Their findings suggest that, at one end of the spectrum, an exit from the EU that puts the UK outside the European Economic Area (EEA), but otherwise delivers passporting and equivalence and allows access to the Single Market on terms similar to those that UK-based firms currently have, will cause some disruption to the current delivery model, but only a modest reduction in UK-based activity. They estimate that revenues from EU-related activity would decline by some £2 billion (or approximately 2% of the total international and wholesale business), that 3000–4000 jobs could be at risk, and that tax revenues would fall by less than £0.5 billion per annum. However, at the other end of the spectrum, a hard Brexit, whereby the UK's relationship with the EU rests largely on World Trade Organisation (WTO) obligations, some 40–50% of EU-related activity (approximately £18–20 billion in revenue and up to an estimated 31,000–35,000 jobs) could be at risk, along with approximately £3–5 billion of tax revenues per annum (Oliver Wyman, 2018).

Although these absolute numbers are large, in reality international financial services are one of the least



exposed sectors to Brexit (Los et al., 2018). This is because this particular sector is already hyper-globalized rather than being highly dependent on European markets in the way that are UK manufacturing and agriculture. The result is that the London economy in general is also the region that is the least exposed to Brexit (Chen et al., 2018; Los et al., 2017). Of more concern, therefore, is the overall effect of Brexit on services industries in general, and especially the exposure of highly skilled services workers, who are particularly exposed to Brexit than lower skilled workers. The service industry in other parts of the UK is more exposed to Brexit than London-based services, given their relatively higher levels of integration in local manufacturing and agricultural industries. 'What's going to happen to our financial sector? ... If they lose their rights to passport insurance and banking services across Europe' (Richard Corbett, Leader of the UK Labour Party in the European Parliament).

Until now, concerns regarding service industries have tended to be overwhelmingly dominated by concerns regarding the London financial markets, whereas the evidence from across the country suggests that it is UK-wide services across a range of other service industries and activities that are more vulnerable to Brexit than London-based international financial services.

### Immigration

The design of the post-Brexit immigration policy (Migration Advisory Committee (MAC), 2018) is likely to have major implications for the London economy, as will the immigration-related arrangements contained in any transition or withdrawal agreement. London exhibits the highest human capital premium associated with international migration of any major city in the world (McCann, 2016; OECD, 2011), with the lion's share of that human capital premium coming from other EU countries. It exhibits a net population outflow of some 50,000 per annum (McCann, 2016), but this is more than counteracted for international in-migration. Other UK cities have also greatly benefited from international immigration over the last two decades, and indeed this has been one of the biggest drivers behind the rejuvenation of formerly deindustrialized UK cities, many of which had been depopulating for three decades before the mid-1990s (McCann, 2016).

However, the narrative and tone of UK immigration policy over the last decade has been intentionally hostile toward in-migrants, with the Windrush Scandal being the most obvious case. There was recognition that there needs to be a response to this fairly and effectively:

I think we have to remember that an immigration policy that worked for London and indeed the country as a whole, isn't one that just focuses on very highly skilled or highly paid immigrants. London depends on migration of all levels, all salary levels, all skill levels.

(Professor Jonathan Portes, King's College London)

The legacy of this narrative and tone makes reforming the system in a constructive manner for any transition period as well as for a post-Brexit context all the more difficult. Yet, given that London is so diverse demographically, it is still likely to remain as the focal point for post-Brexit immigration. Moreover, if salary thresholds are a feature of any post-Brexit immigration regime, then this is likely to hurt London the least of any UK region, because of the higher nominal salaries evident in London relative to the rest of the UK. As such, the details of the design of a post-Brexit immigration policy are more likely to impact the economic prospects of other UK cities and regions, more than London itself. In the EU Referendum, perceptions of immigration as a negative phenomenon tended to be much stronger in other more peripheral and weaker regions than in London, even though immigration has been pivotal to the rejuvenation of so many UK cities over the last two decades. Yet, even though the effects of Brexit on London are potentially likely to be less than in other parts of the UK, the concerns regarding the local post-Brexit challenges associated with immigration are much higher amongst policy-makers in London than in other regions. Interestingly, the concerns of analysts and policy-makers regarding immigration are more or less the opposite of public perceptions, where concerns about immigration are much higher in weaker regions and much lower in London. The reason is that public concerns, as clearly articulated in the EU Referendum (Springford et al., 2016), are based on local perceptions that immigration is too high in some regions, whereas the concern of analysts and policy-makers is that significantly reduced immigration from Europe will lead to major shortages of skilled staff in key industries.

### Higher education

The UK's withdrawal decision from the EU continues to cause concern in the higher education sector. At the institutional level, Brexit is seen as a severe risk for future collaborations between the UK and EU's higher education institutions (HEIs). Courtios et al. (2018) analysed the perceived implications of Brexit for the UK higher education system and the organizational capabilities of UK HEIs to monitor their environment and respond to challenges caused by Brexit. The London seminar participants expressed a wide range of issues and concerns about the impact of the Brexit Referendum on UK local higher education systems, on research collaboration and on the global academic labour market, as well as on their own trajectories. The issues and concerns fall into four broad categories, namely: revenues, people and ideas, cross-border student learning, and HEI orientation and strategies.

In terms of HEI revenues, there are concerns regarding the UK's long-run reduced or truncated ability to access Horizon 2020 and other EU-funded research funding streams, European Structural Funds and European Investment Bank (EIB) loans, and the fees associated with EU students. Increased inflows of non-EU students, especially from Asia, may be able to compensate partly for reduced EU student fees, at least in the short run. However, it is difficult to see how UK HEIs can compensate for reduced

or truncated access to Horizon 2020 and other EU research funds, given the sheer scale of these funds and the UK's dominant position in EU research funding grant capture. Although UK Research and Innovation (UKRI)-funded research grants are important, their scale is nowhere near the scale of the EU funding streams, and the loss of international collaboration and coordination threatens the ability of UK HEIs to scale up their comparative advantages.

Regarding UK higher education's concerns about the Brexit-related implications for people and ideas, the concerns tend to focus on the contribution of EU doctoral students and EU staff to the UK higher education system and the likely challenges of future post-Brexit recruitment, including on cross-border exchange programmes such as the Erasmus Programme. In terms of orientation and strategies, there were also major concerns regarding the orientation and strategies of UK HEIs with respect to their ability to develop partnerships beyond Europe which will compensate for reduced EU student and staff linkages, and also the ability of local HEIs to engage with their local and regional communities.

At present, the post-Brexit position of the UK higher education system is largely unknown, and there is little evidence that the concerns that have been articulated have been assuaged in any way.

Moreover, these concerns are not confined to the London economy, because the UK higher education system is highly dispersed and universities nowadays act as 'anchor institutions' in many different cities and regions. Anything that limits the ability of universities to perform at the forefront of international competitiveness risks the prosperity of many UK cities. This is especially important in the weaker cities of the UK, many of which are relatively more dependent on their anchor institutions for their long-term development, given the paucity of their knowledge-based assets.

## BREXIT AND DEVOLUTION

### Subnational heterogeneity?

At the Edinburgh symposium, the issues regarding Brexit from the perspective of the three devolved administrations of Scotland, Wales and Northern Ireland were explored. Many of these issues were consistent with those found in other parts of the UK. For instance, the dependency on EU migrants described in the London symposium is also the case for Scotland, Wales and Northern Ireland. The numbers differ between regions, but the same worries are shared, as changes to access to skills and markets will impact long-term competitiveness in the same way. Concerns over a decrease in EU migrants are paired with rises in the old-age dependency ratio (the proportion of over 65s to working-age people), particularly in remote rural areas of Scotland, Wales and Northern Ireland. Similarly, the expected trade shocks and fiscal impacts across Scotland and Wales are common with areas of England (Dwyer, 2018), with Brexit likely to further exacerbate existing economic concerns in these regions:

I think in many ways the key economic development challenges that Wales will face in the post-Brexit world are similar to the ones they faced in the past. I think the best analysis that we've got, suggests that the consequence of Brexit will be a lower rate of economic growth than otherwise. Lower tax revenues to the UK Government, and lower revenues for the Welsh Government consequently. And therefore, reduced money to spend on public services.

(Jonathan Price, Chief Economist, Welsh Government)

The paradox in *economic* terms of regions voting against their own interest, largely irrespective of the level of EU policy engagement in these regions, is particularly true of Wales, which receives 'higher levels of EU funding than other UK regions' (Hunt et al., 2016, p. 828). Therefore, the potential future loss of EU funding is a core concern for the Welsh government. Nevertheless, to the Welsh Leave (52.5%) voters, 'the EU was seen as the embodiment of the distant, unaccountable political elite', and they choose to vote against this (p. 828). In contrast, 62% of Scottish votes were to remain but share the economic concerns around the direct, indirect and induced impacts from leaving (Figus et al., 2018). The specific economic and trade-related issues for Northern Ireland are more complex and significant because of the border issue with the Republic of Ireland. These will be discussed in the next section.

### Institutional and governance challenges

There are also institutional and governance challenges issues in the devolved nations that are very different from other parts of the UK. This is because these three areas have significant, but also significantly different, devolved powers, which makes their relationships with the Westminster government rather different compared with areas within England itself. At the same time, all sub-state areas across the UK, including the devolved administrations, have been almost entirely left out of the Brexit negotiations (Billing et al., 2019). However, this poses political challenges for the three devolved administrations, because their devolved status within the UK of four nations implies that they have a notion of 'nationhood' which has been largely ignored by Westminster in the Brexit negotiations, and which raises fundamental questions regarding their future status within the UK. This is particularly the case for Northern Ireland and Scotland, in that the question of the border between Northern Ireland and the Republic of Ireland is one of the key issues in Brexit, along with the potential implications of Brexit for Scottish independence.

Different forms of devolution were given to each of these three devolved administrations in 1997, but since then their fortunes have diverged somewhat. As we have already seen, Wales has struggled significantly in economic development terms during the last four decades and was already facing major difficulties at the time of devolution in the late 1990s. In contrast, Scotland was already on a steady upward trajectory at the time of devolution and has continued to prosper ever since, while Northern

Ireland has remained at relatively low but stable levels of prosperity for five decades (McCann, 2016). What has changed in the three devolved administrations is the level of governance devolution afforded to each area since the late 1990s, with Scotland having much more autonomy and powers than Wales, while the Northern Irish case was a unique arrangement in coordination with both the UK and the Republic of Ireland, in the context of joint EU membership. Brexit, and especially the agreement brokered by Johnson, has fundamentally challenged this Northern Irish status quo, while also increasing pressure for a second Scottish independence referendum, given that the renegotiated deal by the Johnson-led government is much closer to a no-deal scenario than was the earlier superseded deal negotiated by the May government.

Brexit throws up major political and constitutional challenges for three devolved administrations regarding the devolution of powers from Westminster, and in the case of Scotland, possibly towards an independence agenda. Scotland already has much more autonomy than all the other parts of the UK, and also has a much larger government infrastructure, with significant institutional capabilities:

I think Scotland is at an advantage and at a disadvantage in relation to Brexit. The advantage is it's got a devolved government that can actually respond to local needs. ... On the other hand ... the devolved government don't have full powers over what's happening. So you know, devolved governments I think find themselves a bit of difficulty – they've got responsibility and they've got powers, but they haven't got control of the situation.

(Des McNulty, Deputy Director Policy Scotland at the University of Glasgow)

However, in terms of economic development, whatever political or constitutional settlement emerges, Brexit still creates significant challenges. The economic development situation in Northern Ireland is especially complex because of the border issue with the Republic of Ireland, and also because, with the deal brokered by Johnson, its status is likely to change again with the proposal that the Irish Sea will become a Single Market customs barrier with the rest of the UK.

Obviously from a Northern Ireland perspective, the key issue is around the border, and what the resolution is to that. ... The debate within the UK has been about whether powers repatriated from Brussels, whether they're appropriately balanced, and whether sufficient powers are going to devolved administrations. Again, depending on how the border question is solved, there could be implications for Northern Ireland, which might in some cases imply additional powers.

(Shane Murphy, Chief Economist for Northern Ireland)

The EU Single Market rules of origin will mean that under the current proposals the Irish Sea will become a

real trade barrier (Sampson, 2019) between Northern Ireland and the rest of the UK, and this will potentially have major implications for the governance of the province. There are also potentially significant economic and cultural implications relating to any changes to the common travel area (the movement of people across the Northern Ireland–Republic of Ireland border).

### Agricultural impact

There are also specific concerns relating to agriculture and fishing in the devolved administrations. This was discussed at the Edinburgh symposium by Professor Carmen Hubbard (Newcastle University), based on her detailed analysis, with colleagues from the Scottish Rural College, Agri-food & Biosciences Institute and a range of stakeholders, of how UK agriculture may be affected by Brexit. The study highlighted that the UK agri-food sector will be heavily affected by Brexit because of its dependency on: trade relations with the EU; migrant labour; and subsidies and regulations under the present Common Agricultural Policy (CAP). Hubbard et al. (2019) argue that the removal of CAP direct payments would only worsen any negative impacts from trade relations and affect most farm businesses. These changes in the agricultural industry could also have far-reaching impacts across other sectors, including food processing.

These concerns are present in the UK, but are arguably more strongly felt in more rural areas of Scotland and Wales. For instance, in England around half of farm incomes will be impacted by changes to the CAP, whereas in 'Scotland it is three quarters, in Wales it is 80% and in Northern Ireland 87%' (Michael Keating, Centre on Constitutional Change). Within the devolved administrations, some farms and sectors will face greater challenges than others. Variability in the effects at farm and sector level reflects differences in 'farming systems arising from geographical (e.g., climate, soil) and structural characteristics (e.g., enterprise mix)' (Hubbard et al., 2019, p. 15). For example, the economic viability of sheep production is expected to particularly decline, which would affect harder north and west Wales (Dwyer, 2018). In contrast, dairy, horticultural, mixed and other farm types are more likely to experience a more positive impact.

## DISCUSSION AND CONCLUSIONS

This paper has explicitly sought to table the views of experts on different aspects of regional and local economic development regarding the Brexit-related implications for the regions or sectors about which they have expertise. Moreover, these views and opinions have been sought within a common research framework, namely a series of roundtable symposia held across the UK, examining different specific, but interrelated, themes. The fact that not only were expert Brexit-related views largely eschewed during both the 2016 EU Referendum and also the 2017 and 2019 UK General Election debates, but also the regional and local implications of Brexit barely surfaced in any mainstream political discussions, makes this tabling

of expert views even more important. While domestic UK politics may have changed fundamentally since 2016, the underlying economic issues have not changed. Regarding regional economic development challenges, the disconnections between public discourses, political priorities and evidence have been very real between 2016 and 2019. It is only since the December 2019 General Election that ‘levelling-up’ has become a core political priority, and arguably even more of a core priority than the ‘rebalancing’ agenda of the David Cameron-era governments of 2010–16. Yet, as a national economic problem, the need for the ‘levelling-up’ of UK regions was already there long before the EU Referendum (McCann, 2016, 2020), and rather than sectoral issues (Martin et al., 2018), it is issues relating to connectivity, barriers to spillovers and diffusion, evolving skills issues, and changes in global value chains which were at the core of the problem. Importantly, the complex causes of the UK regional imbalances had little, if anything, to do with EU membership, and were a mixture of global shifts exacerbated by domestic UK institutional failures (McCann, 2016). Brexit has almost certainly made these problems greater (Billing et al., 2019). The great majority of evidence suggests that the UK regional implications of Brexit work directly against these ‘levelling-up’ core political priorities, in all likelihood exacerbating existing regional inequalities.

The variety of expert opinions arising from the four symposia discussed here, therefore, points to various conclusions. First, as already identified elsewhere (Billing et al., 2019), subnational and substate governance institutions and policy-makers in the UK are largely ‘in the dark’ as to the post-Brexit economic context and what powers or remits they may have to respond to the post-Brexit challenges. Second, there is an overwhelming analytical, conceptual and empirical consensus that the post-Brexit context will be materially more difficult than the pre-Brexit context. Third, there may be some opportunities to improve domestic policy-making in particular arenas, although the responses will depend primarily on what the central government decides.

Improved connectivity via HS2 (the high-speed rail line) alone is unlikely to solve the deep-seated underlying problems, and the hollowing out of local government makes the challenges even greater. A key part of the response relates to the industrial strategy (HM Government, 2017), which was instituted as a direct response to Brexit, and which is intended to connect the national ambitions of the government to regional and local concerns in terms of rebalancing the economy. If the government can deliver a holistic and effective industrial strategy for everyone, with an understanding of place and how growth sectors intersect with territorial issues, it may be able to better address some of the UK’s longstanding structural issues in cities and regions, especially in the non-core parts of the economy. As yet, however, much of the industrial strategy rhetoric is still rather non-specific and at a rather high level.

Following on from the insights of the four symposia, it is clear that fundamental subnational and substate governance devolution reforms are required in order to make such policies effective. Yet, precisely what form or forms

of subnational or substate devolution are appropriate is still not entirely clear. The agendas in the devolved administrations may be rather different from those in England, and the resulting devolution patchwork needs to be carefully designed so that it closely maps onto the major post-Brexit challenges and opportunities. In recent years, city-regions have been in the vanguard of these devolution processes, and given the UK’s high levels of urbanization, allied with the serious underperformance of the UK’s cities in the non-core regions (McCann, 2016, 2020), then promoting city-region growth would appear to be a priority.

I think we’re going to need to see a governance structure that gives much more formal powers to our big cities in particular across England and indeed in Scotland, in Wales ... places like Greater Manchester, West Midlands, Greater Newcastle, Greater Leeds – those big cities, Glasgow, and Cardiff – I would like to see much more power and responsibility over issues around skills and transport and housing devolved away from Whitehall, and down into those localities. Ideally led by mayors, but not necessarily. So they can have some of the power and control in order to make a success of whatever the post Brexit scenarios are.

(Andrew Carter, Chief Executive, Centre for Cities)

Yet, there is also some political resistance to these changes. As we have seen, the ‘cities versus towns’ narrative is politically persuasive given that many swing seats are in towns, yet as we have seen this narrative is based on very flimsy economic evidence. Of course, it is perfectly possible for large attitudinal differences, of a type that psephologists examine, to exist within narrow prosperity gaps, but these cannot form the basis for serious economic development policy frameworks if they are not connected to the primary underlying economic realities. Moreover, many ‘towns’ such as Bootle, Oldham or Walsall are already located in city-region systems, so their economic relationships are very different from isolated localities. However, given the underlying political realities in both the 2016 EU Referendum and the two subsequent general elections, in which the votes of towns are seen to be critical to securing power, then the primacy of political expertise over economic expertise means that the current city-region economic priorities may be somewhat diluted or undermined by the towns’ narrative.

More fundamentally, the underlying contradictions between the hard Brexit logic and the levelling-up logic will not go away. Given all the evidence referred to and all the expert views presented here, perhaps the most pertinent summation of the situation was coined by John Mothersole, former Chief Executive of the City of Sheffield, who described the Brexit vote as ‘the right answer to the wrong question’.

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## NOTES

1. When the UK gave formal notice under Article 50 of the Treaty on the Functioning of the European Union on 29 March 2017.
2. Edinburgh, 4 May 2018; Birmingham, 11 May 2018; London, 18 May 2018; and Leeds, 21 May 2018.
3. For the speakers' list, see Appendix A in the supplemental data online. For all their presentations and interviews, see <https://www.birmingham.ac.uk/schools/business/research/research-projects/city-redi/economic-impacts-of-brexite-on-the-uk.aspx> (accessed on 9 December 2020).
4. 'Exposure' in this sense refers to the likely scale of the trade disruption to be encountered by these regions and consequently also the required scale of internal economic restructuring that will be needed in these regions in order to adjust to the new post-Brexit trading realities. See Chen et al. (2018) for the technical operationalization of the concept.
5. Subsequently a member of the 2019 Treasury Select Committee 'Regional Imbalances in the UK Economy Inquiry'.
6. Goodhart (2017) describes many city-dwellers as 'citizens of anywhere', while UK Prime Minister in 2016 Theresa May described people who see themselves as 'citizens of the world' as 'citizens of nowhere'.
7. In March 2019, the UK government announced a 'Stronger Towns' policy as a response to these concerns (<https://www.gov.uk/government/news/16-billion-stronger-towns-fund-launched>).
8. See <https://www.mpfglobal.com/media/612033/Brexit-report-January-2018-from-Managing-Partners%E2%80%99-Forum.pdf>.

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