

The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors

London Regional Participatory Workshop





The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors

Housekeeping

Twitter: **#brexitregionalimpact**

Presenters: **10 minutes presentations**

Audience: Introduce yourself when asking questions

**Don't forget to fill in the:
Feedback assessment form!!**

The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors

Welcome Address

Professor Raquel Ortega-Argilés, University of Birmingham

Professor Daniel Wincott, The UK in a Changing Europe

Professor Jonathan Portes, King's College London and The UK in a Changing Europe

An aerial photograph of a city, likely London, showing a river (the River Thames) winding through the urban landscape. The city is densely packed with buildings, and a large stadium with a distinctive white roof structure is visible in the lower right quadrant. The overall scene is captured in a slightly desaturated, golden-hour light.

The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors

The research team

Raquel Ortega-Argilés

(Project leader, City-REDI Institute, University of Birmingham),

Chloe Billing and Deniz Sevinc (City-REDI Institute, University of Birmingham),

Philip McCann (University of Sheffield),

Wen Chen, Pieter IJtsma and Bart Los (Groningen University),

Nicola Cortinovis and Frank van Oort (Erasmus University Rotterdam),

Mark Thissen (PBL Dutch Government Environmental Agency)

The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors

The partners



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PBL Netherlands Environmental
Assessment Agency

Significance of the research



Funded by the Economic and Social Research Council, “The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors” project started in April 2017 and is part of a series of 25 projects funded by ESRC to support the initiative [The UK in a Changing Europe](#) coordinated by Professor Anand Menon at King’s College London.

The project aims to examine in detail the **likely impacts of Brexit on the UK’s sectors, regions and cities** by using the most detailed **regional-national-international trade** and **competition datasets**

Interest and engagement at this stage

- [Annual Northern Ireland Economic Conference 2017](#)
- [Regional Studies Association](#)
- **Houses of Parliament**
- **HM Treasury**
- **BEIS Department**
- **Foreign Commonwealth Office**
- [West Midlands All Party Parliamentary Group](#)
- [EU Committee of the Regions](#)
- Birmingham Post-Brexit Commission
- [Managing Partners' Forum](#) – Professional and Business Services lobbying group
- European Parliament

How the recommendations have been taken up and by whom until now

Report contributions and mentions:

- [Brexit: Local and Devolved Government](#), UKICE
- [EU Referendum: One year on](#), UKICE
- [State of the North 2017: The Millennial Powerhouse](#), IPPR North
- [Will the unit of the 27 crack?](#), Centre for European Reform
- [Preparing for Brexit](#), Cambridge Econometrics
- [Brexit - What We Know Now](#), Tony Blair's Institute for Global Change
- [Wikipedia inclusion: Brexit](#)
- [UK Parliament](#)
- [Assessing the exposure of EU27 regions and cities to the UK's withdrawal from the European Union](#), CoR Committee of the Regions

The analysis

- **Trade related effects:** Input-Output analysis; intermediate and final goods; global fragmentation of the value chains – local GDP, regional labour income
- **Competitiveness:** FDI, Trade and Knowledge
- **Governance:** regional stakeholder workshops and regional and sectoral case studies
- **Extent:** EU countries, UK and EU regions, sectors, jobs, occupations
- **New indicators and data**

Regional Stakeholder Participatory Workshops

Devolved Administrations	Scotland, Edinburg, 4 th May 2018
West Midlands	Birmingham, 11 th May 2018
Greater London	London, 18 th May 2018
North of England	Leeds, 21 st May 2018

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The UK in a Changing Europe**

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The Economic Impacts of Brexit on the UK, its
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Greater London Brexit Challenges

Professor Philip McCann, University of Sheffield

Ben Gardiner, Cambridge Econometrics

Andrew Carter, Center for Cities

Anjalika Bardalai, The City UK

Chair by: **Professor Frank van Oort**, Erasmus University Rotterdam



The Economic Impacts of Brexit on the UK, its
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Greater London Brexit Challenges

Professor Philip McCann, University of Sheffield

p.mccann@sheffield.ac.uk



The **UK** in a
Changing Europe

The Continental Divide? Economic Exposure to Brexit in Regions and Countries on Both Sides of the Channel

Wen Chen, Bart Los, Philip McCann, Raquel Ortega-Argilés, Mark Thissen and Frank van Oort
Papers in Regional Science, 97.1, 25-54

“Exposure to Brexit in Regions on Both Sides of the Channel”, 2017, VoxEU, 19 December, See:

<http://voxeu.org/article/exposure-brexit-regions-both-sides-channel>

How?

- Simple measures of gross exports and imports tell us very little about the potential impacts of Brexit on a nation or region, because both the **back-and-forth trade in raw materials**, **parts and components** and **business services** (often within the boundaries of multinational enterprises) typical of global value-chains obscures the links between local value-added and trade (Baldwin, 2016).

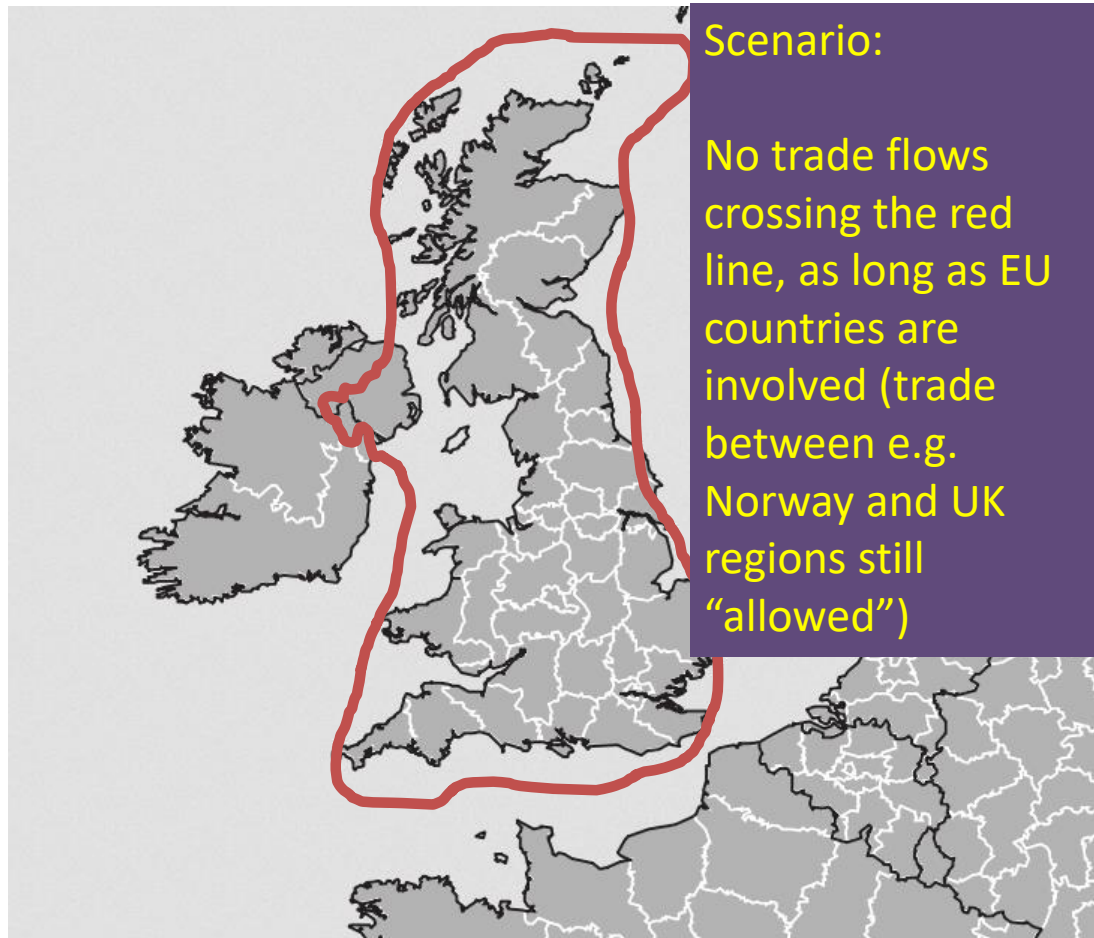
Data construction

- Two types of sources:
- The World Input-Output tables of the WIOD 2013 release containing 40 countries (accounting for about 85% of world GDP, including all EU27) plus a composite ‘super-country’ labelled 'Rest of the World' are represented (Timmer et al., 2015).
- Second type of data, from regional sources: Eurostat’s regional economic accounts, a number of survey-based regional supply and use tables or input-output tables produced in a subset of countries, and estimates of interregional goods and services trade based on freight and airline business passenger statistics (Thissen et al., 2013).
- The merging of the information contained in these data sources allows us to:
- Incorporate regional details regarding production structure and trade at the NUTS2-level for all major EU-countries in global input-output tables for 2000-2010.
- 245 NUTS2 European regions are represented and 14 industries can be identified for all regions and countries.

How?

- We develop a measure of regional exposure to Brexit building upon a flourishing strand of literature using global input-output tables to link trade to value-added (Johnson and Noguera, 2012; Timmer et al., 2013; Koopman et al., 2014).
- We use a bilateral version of the Domestic Value Added in Exports (DVAiX) indicator proposed by Koopman et al. (2014).

Input-Output Data



IO-tables allow for mapping of trade to labor income and value added

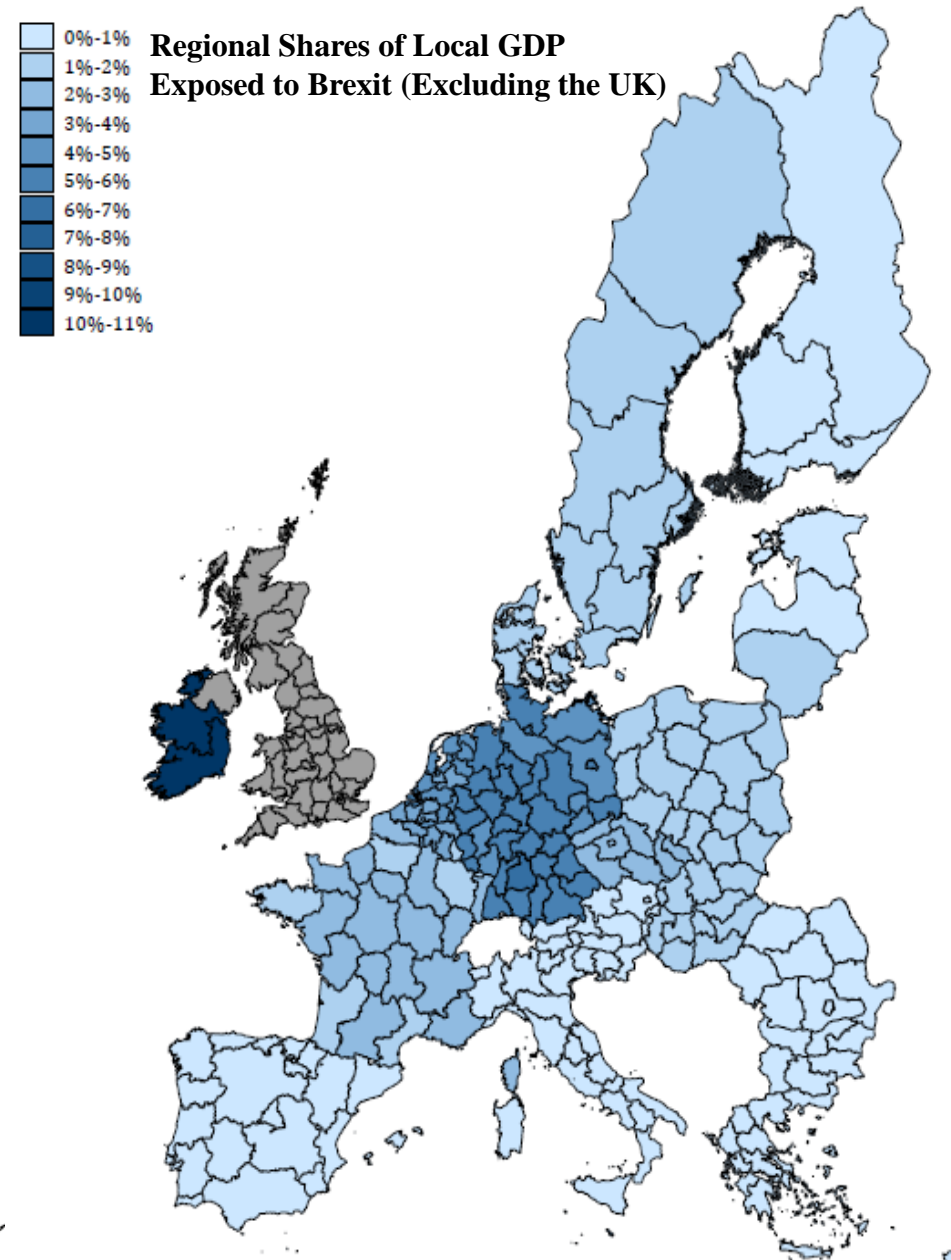
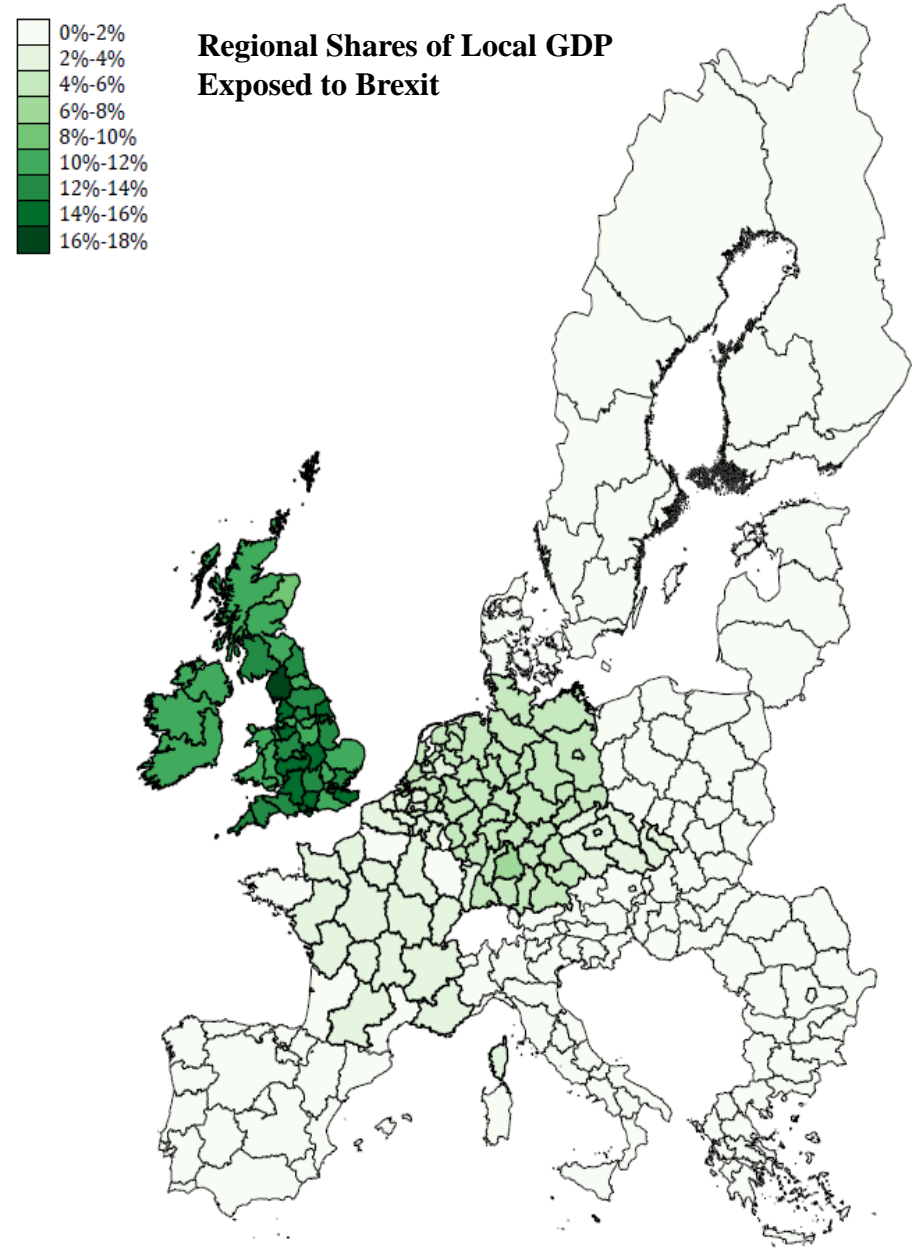
“Regional GDP exposed to Brexit”:
Difference between actual GDP and GDP without EU-UK trade

Research Question

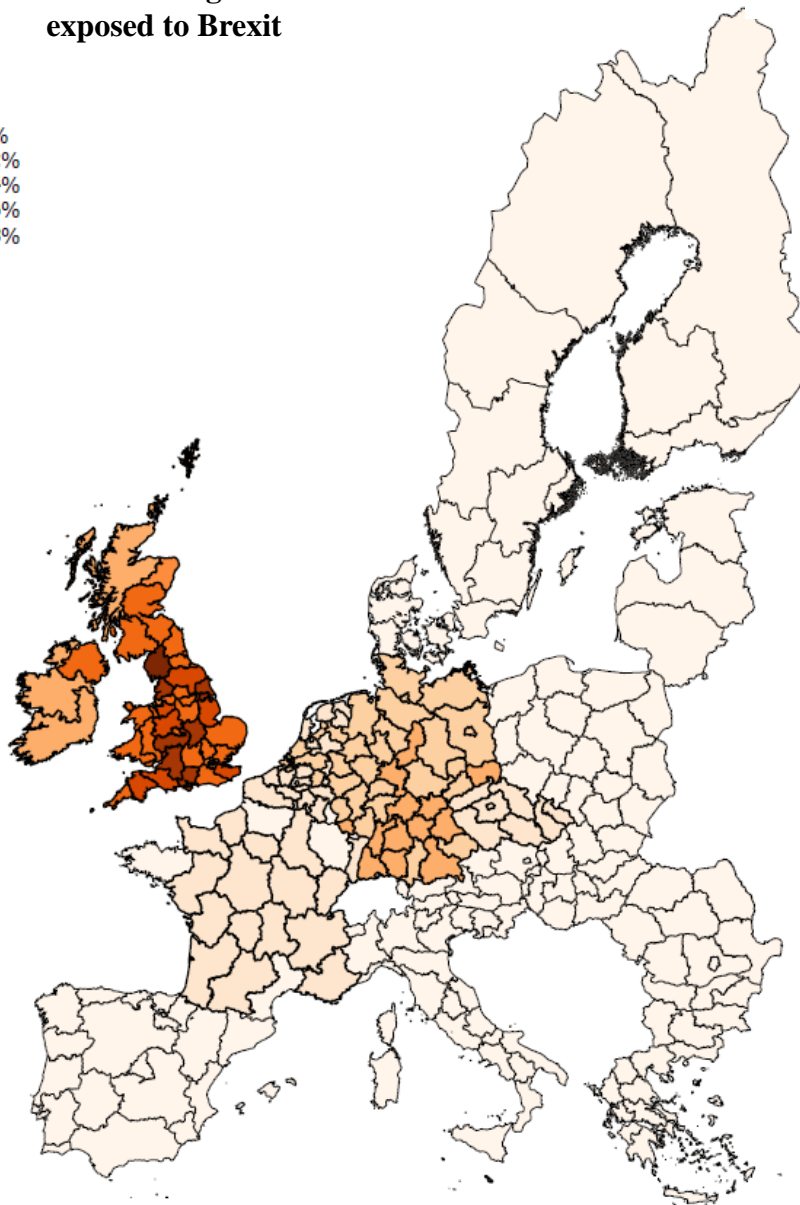
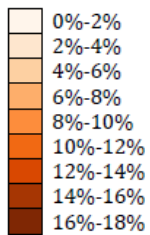
- *“Which shares of regional Labor Income and regional GDP are at risk as a consequence of future Brexit-related trade barriers?”*
- (which is not identical to:
- *“Which shares of regional LI and GDP will be lost as a consequence of Brexit?”*)
- *How big are the required structural and economic adjustments?*

Brexit Exposure Risk

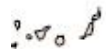
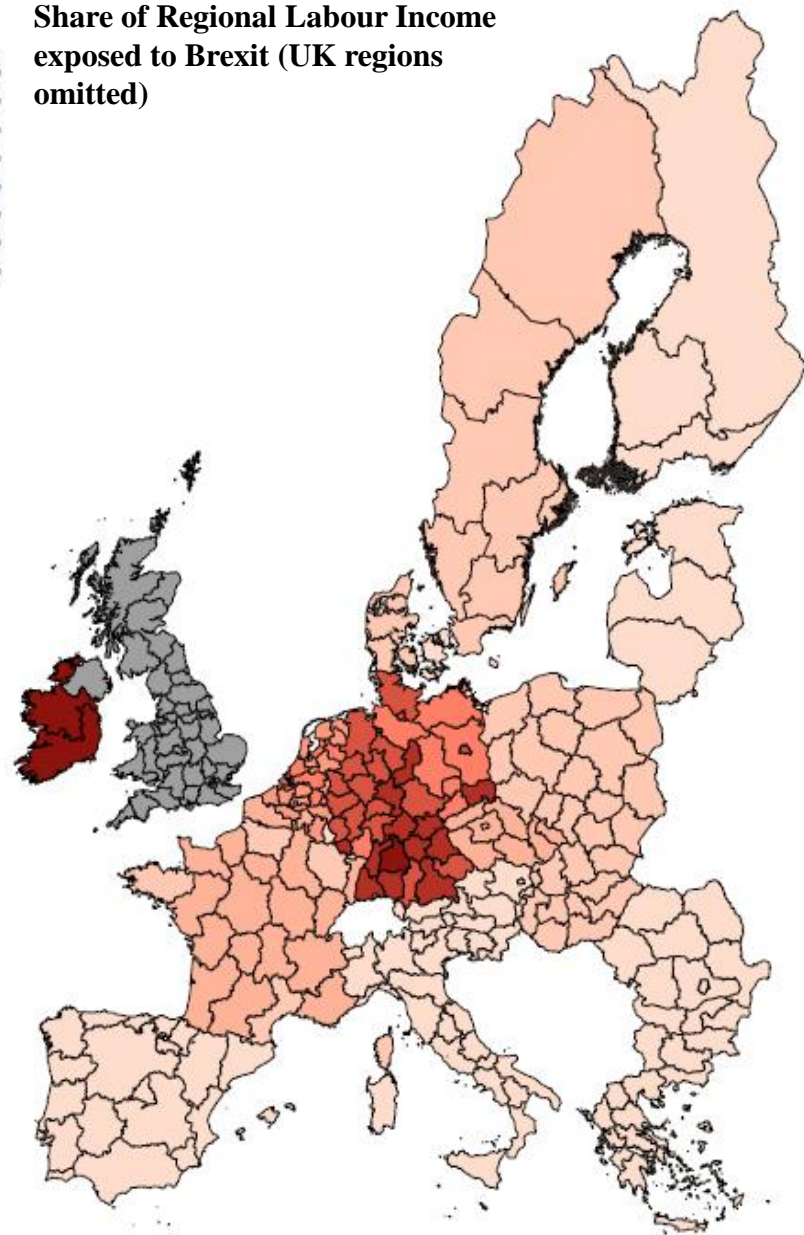
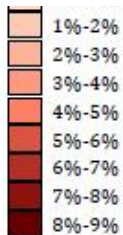
- For UK regions:
 - direct trade linkages (export, import, re-export, re-import)
 - indirect trade linkages via other UK regions
 - third country demand mediated via EU value-chains
- For EU regions:
 - direct trade linkages (export, import, re-export, re-import)
 - indirect trade linkages via other EU regions
 - third country demand mediated via UK value-chains
- Exclude UK-EU and EU-UK demand linkages mediated via third countries



Share of Regional Labour Income exposed to Brexit



Share of Regional Labour Income exposed to Brexit (UK regions omitted)



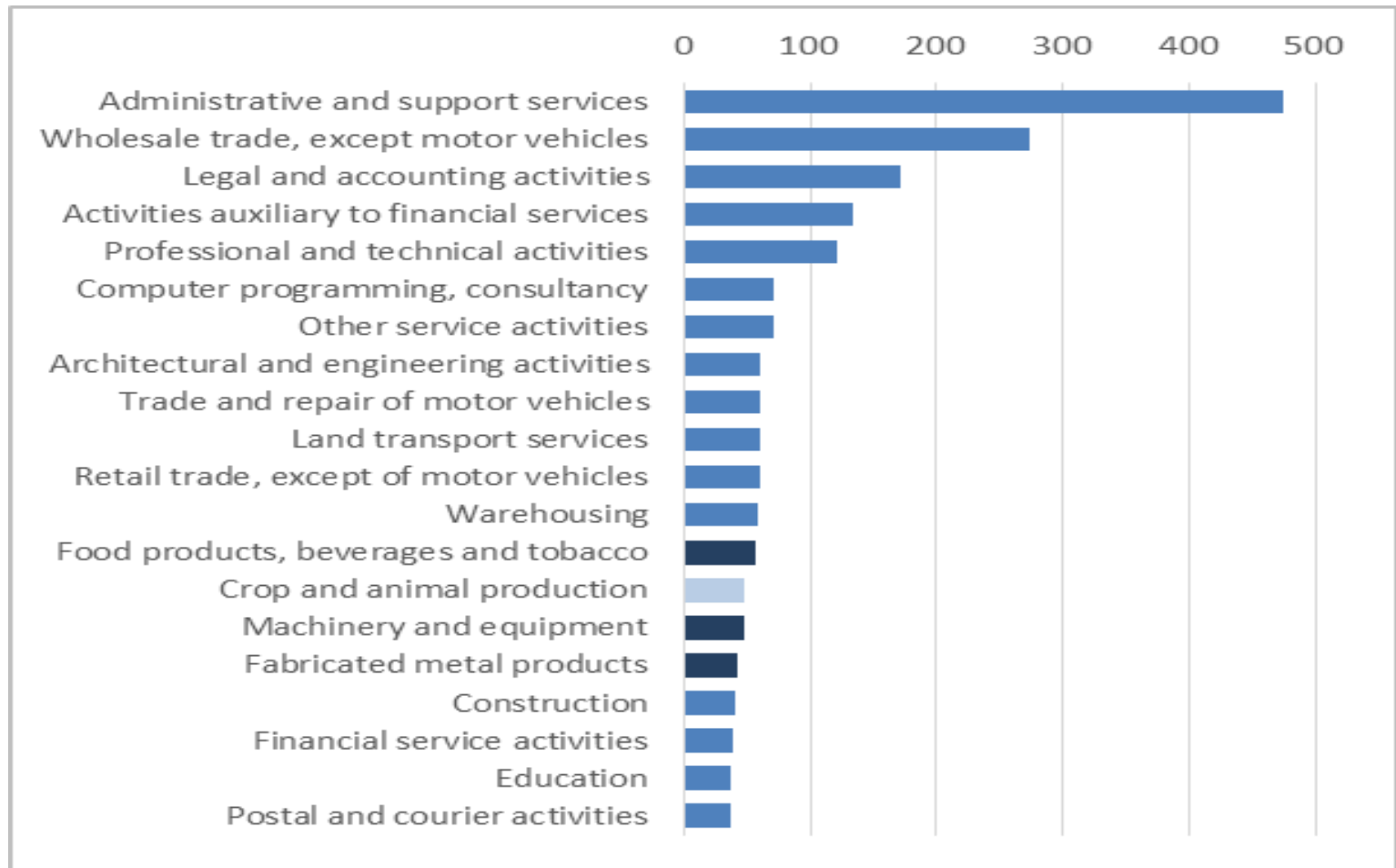
National Brexit Exposure Risk

- UK regions → 10%-17% of regional GDP
- Irish regions → 10% of regional GDP
- German regions → 4.5%-6.4% of regional GDP
- Dutch regions → 3.5%-5% of regional GDP
- Belgian regions → 2.8%-4% of regional GDP
- French regions → 1.8%-2.7% of regional GDP
- Italian, Spanish, Greek → < 1% of GDP
- UK Brexit risk exposure = 12.2% of UK GDP
- EU Brexit risk exposure = 2.64% of EU GDP
- UK Brexit exposure risk is 4.6 times higher than the EU

Sectoral Brexit Exposure Risk

- City-REDI Policy Briefing Series, December 2017
- “An Assessment of Brexit Risks for 54 Industries: Most Services Industries are also Exposed”
- Bart Los, Wen Chen, Philip McCann and Raquel Ortega-Argilés
- https://blog.bham.ac.uk/cityredi/wp-content/uploads/sites/15/2017/12/City-REDI-Briefing-Template_Sectoral-Analysis-2.pdf

UK Sectoral Risk Exposure



UK Sectoral Risk Exposure

- In the UK as a whole, more than 2.5 million jobs are exposed to the trade effects of Brexit
- Annually, almost £140 billion pounds of UK economic activity is directly at risk because of Brexit
- Professional, scientific and technical activities, activities auxiliary to financial services and wholesale trade.
- Financial services are only exposed to 8% of the sector's GDP - consistent with the estimates for City job relocation to rest of the EU – and the aggregate effect on the UK economy of their exposure is only 0.33% of UK GDP

UK Sectoral Risk Exposure

- Many important manufacturing and primary industries are highly exposed to Brexit, but so are many services industries (and not just the financial services industry)
- These services are not only exported directly to EU countries, but also sell intensively within domestic supply chains to UK manufacturing firms exporting to the EU
- Workers in the jobs at risk are on average slightly more productive than the average British worker – Brexit is likely to exacerbate the UK's productivity problems

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Greater London Brexit Challenges

Ben Gardiner, Cambridge Econometrics



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Anjalika Bardalai, The City UK

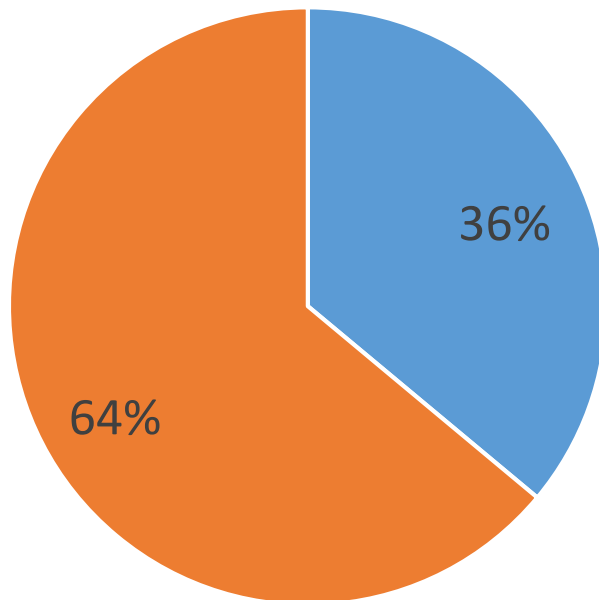
BREXIT ANALYSIS AND LONDON REGIONAL DATA

Anjalika Bardalai
Chief Economist and Head of Research, TheCityUK



EU countries feature prominently among the UK's FS export markets

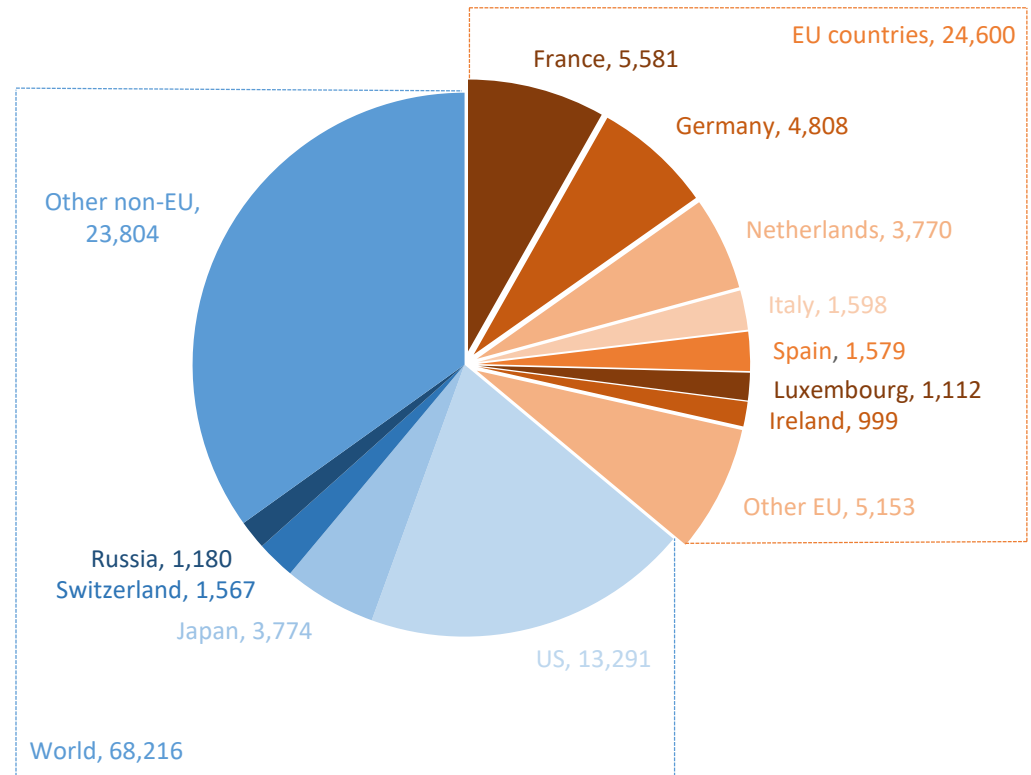
UK financial services trade surplus, % share of total, 2016



■ EU countries ■ Rest of world

Source: Office for National Statistics; TheCityUK estimates

UK financial services trade surplus, £m, 2016



Source: Office for National Statistics; TheCityUK estimates

London dominates the UK's FRPS exports

Financial and related professional services exports by region and nation, £bn

Source: ONS and TheCityUK calculations

Region/nation	2015 financial and related professional services exports*	2016 financial and related professional services exports*
London	39.7	46.6
South East	10.5	11.6
Scotland	6.6	7.2
North West	5.9	6.6
East of England	4.2	5.2
South West	3.8	4.6
Yorkshire and the Humber	3.3	4.0
West Midlands	3.4	3.9
Wales	2.0	2.2
East Midlands	1.9	2.2
North East	1.3	1.7
Great Britain	82.6	95.7

* Financial and related professional services exports are defined as financial services, insurance, accountancy, legal services, and management consultancy and business management. Regional and national figures for related professional services (all years) have been estimated by TheCityUK using ONS UK data. All 2016 figures have been estimated by TheCityUK based on ONS Pink Book data and regional export data for 2011-15.

THE IMPACT OF THE UK'S EXIT FROM THE EU ON THE UK-BASED FINANCIAL SERVICES SECTOR

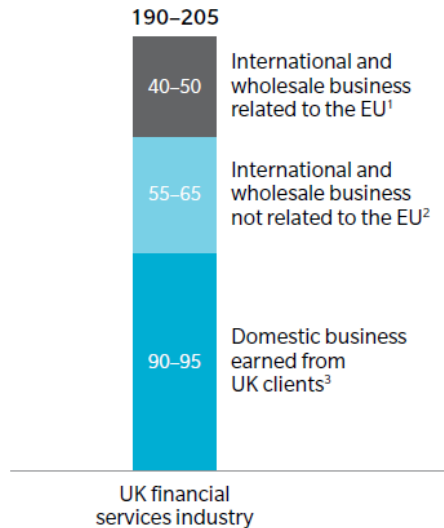
TheCityUK

 OLIVER WYMAN

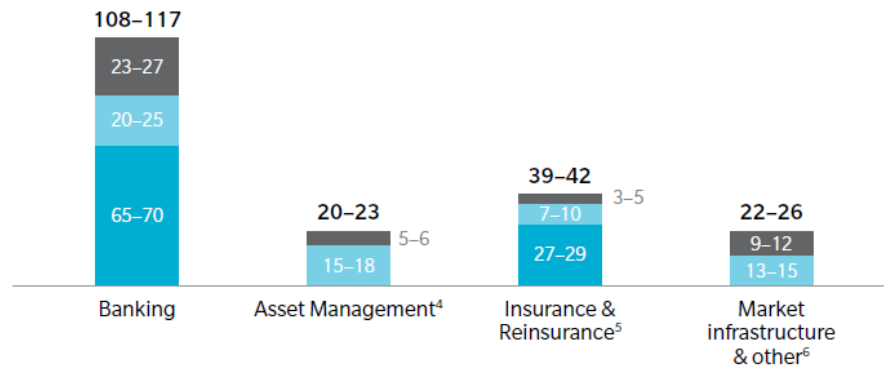


Segmentation of the UK financial services industry

SEGMENTATION OF UK FINANCIAL SERVICES SECTOR REVENUES 2015, £BN



SECTORAL BREAKDOWN OF UK FINANCIAL SERVICES SECTOR REVENUES SEGMENTATION 2015, £BN



1. International and wholesale business related to the EU includes: all EU client activities with financial services firms based in the UK, UK & Rest of World (RoW) client activity in EU/Euro-linked products, UK and RoW activity occurring as a result of EU client activity (for example, portfolio delegation and risk management of trading positions)

2. International and wholesale business not related to the EU includes: financial services activity with UK and RoW clients that is not related to the EU

3. Domestic business earned from UK clients includes: UK personal and business banking, private banking and wealth management for UK clients, UK domestic and commercial insurance

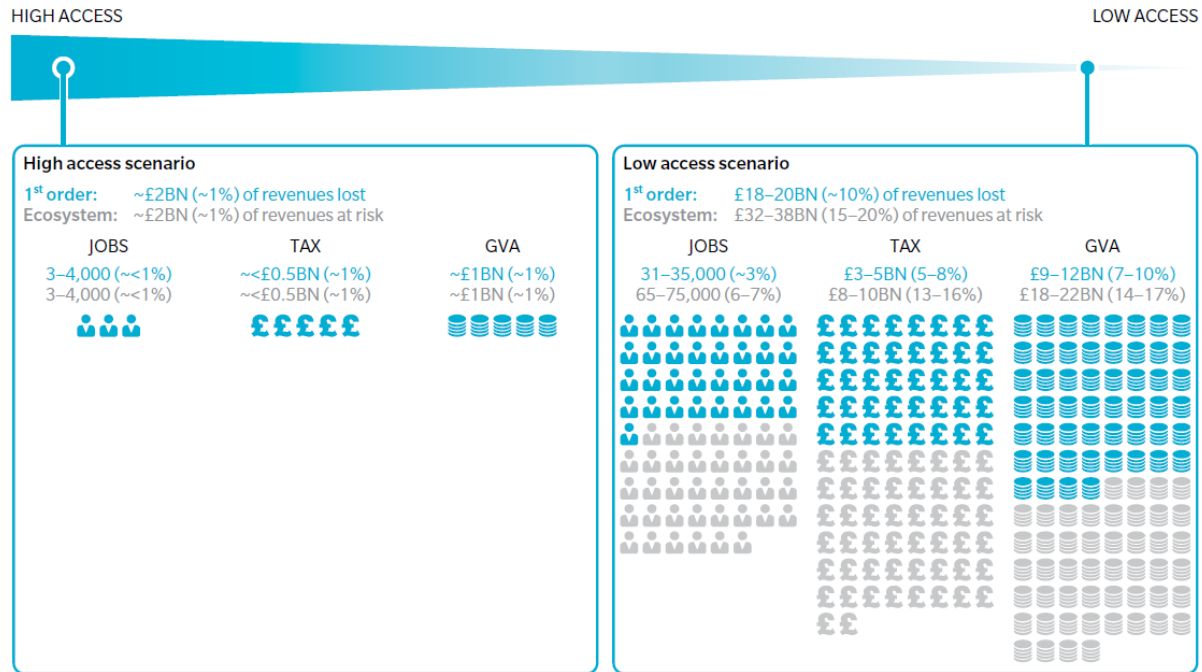
4. Portfolio management for UK client funds included in the International and wholesale business not related to the EU

5. For insurance, we use an estimate of GDP as revenues as opposed to GWP to ensure a more accurate comparison of economic contribution with other sectors

6. All "market infrastructure and other" is considered potentially internationally portable. There is £10-14BN of UK client business included in the International and wholesale business not related to the EU category

Sources: Oliver Wyman analysis

Quantification of first order and ecosystem effects of the UK's exit from the EU in different scenarios



1st order impacts: regulatory impacts on EU-related activity

Ecosystem impacts

1,000 Jobs £100MM tax £200MM GVA

Note: In this analysis we do not take into account other factors that may impact the size and scale of the UK financial services sector – for instance structural changes in the way that services are delivered or impacts of cost reduction programs (for example, outsourcing of activities). Nor do we include any impacts on the financial services sector due to changes in the wider economy as result of impacts of the UK's exit from the EU on households and corporates (for example, in changes in demand for loans, impacts on interest rates), or make any assumptions on changes to economic activity such as exchange rates or inflation changes

Source: Oliver Wyman analysis

For further information TheCityUK's Economic Research programme, please contact:
Anjalika Bardalai, Chief Economist and Head of Research, TheCityUK
anjalika.bardalai@thecityuk.com, +44 (0)20 3696 0100



The Economic Impacts of Brexit on the UK, its
Regions, its Cities and its Sectors

Service sectors: competitiveness challenges

Dr. Mark Thissen, PBL Dutch Environmental Assessment Agency

Dr. Simon Marginson, UCL and UKICE

Yong Jing Teow, CBI

Dr. Ingo Borchert, University of Sussex, UKTPO

Richard Chaplin, Managing Partners Forum

Antony Raine, Deloitte

Chair: Professor Raquel Ortega-Argiles, The University of Birmingham

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Towards an integrated regional economic development strategy

Home Region report Interactive policy pages

This site is developed by PBL Netherlands Environmental Assessment Agency. It introduces a policy concept in which three types of regional economic policies (industry-, innovation- and competitiveness policies) are combined in order to enable the development of a comprehensive regional economic development strategy. This concept is the starting point to develop a regional economic policy strategy of Eastern Scotland. The website does not present such a ready-made regional development strategy but combines tailor made regional economic information into an integral view on the state of the regional economy which should be the starting point of the development of any such regional development strategy.

Go to the the region report or the interactive policy pages if you want to know more about regional economic competitiveness policies and the economic state of different sectors in Eastern Scotland

Choose another European region

Show all regions for European countries ▼

Open the region report >

<http://themasites.pbl.nl/winnaars-verliezers-regionale-concurrentie/>

<http://www.torre.nl/eugrowth/bilingual4/>



PBL Netherlands Environmental Assessment Agency

Brexit and Regional Economic Competitiveness

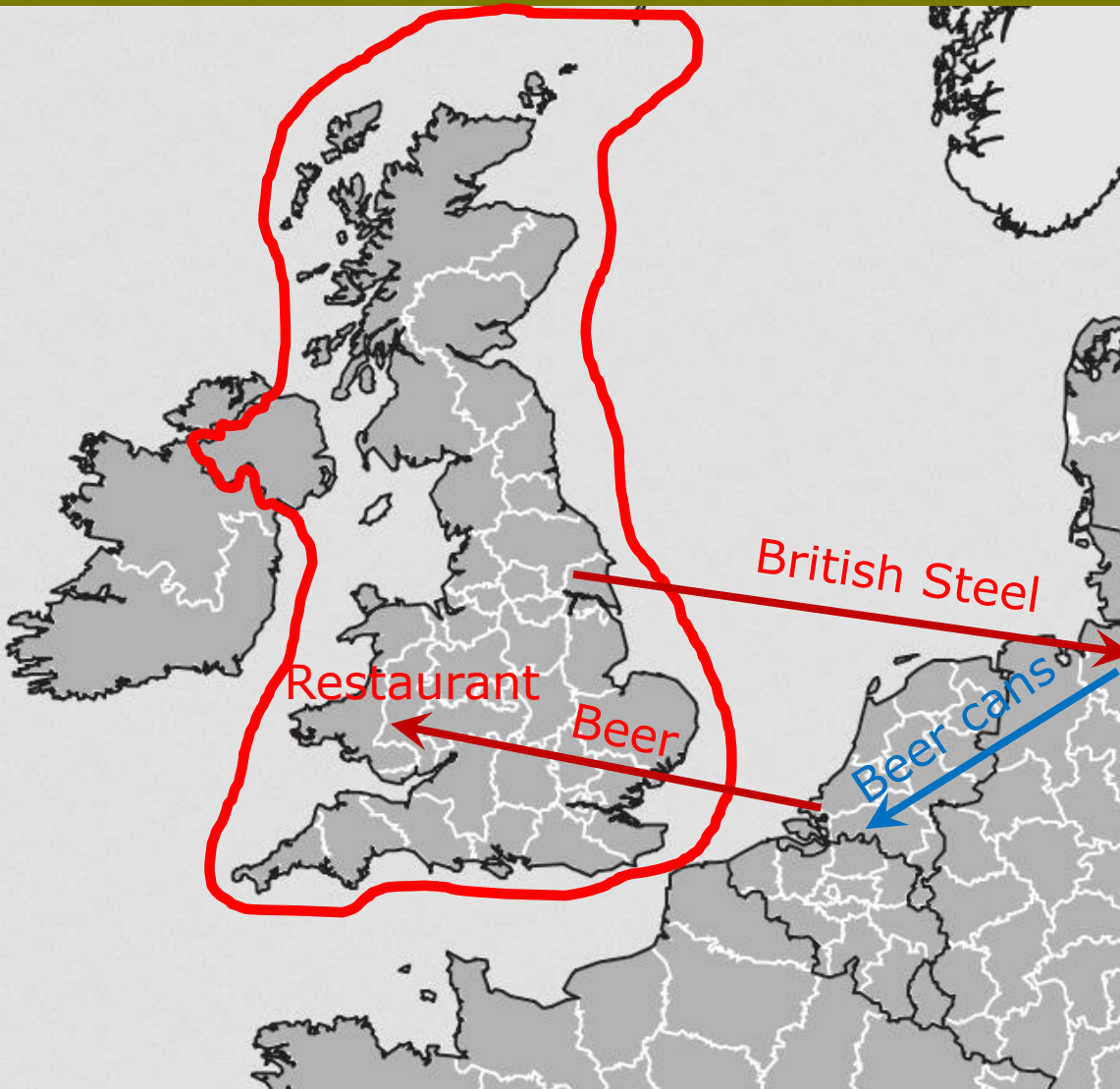
The Economic Impacts on the UK, its Regions, its Cities and Sectors: London Participatory Workshop

Mark Thissen (PBL),
Frank van Oort (EUR) and
Nicola Cortinovis (EUR)

Exposure analysis versus Regional and sectoral production cost analysis of Brexit



PBL Netherlands Environmental
Assessment Agency



Scenario production costs analysis:

Barriers (non tariff and tariff) to trade following the red line and based on Dhingra et al. (2017).

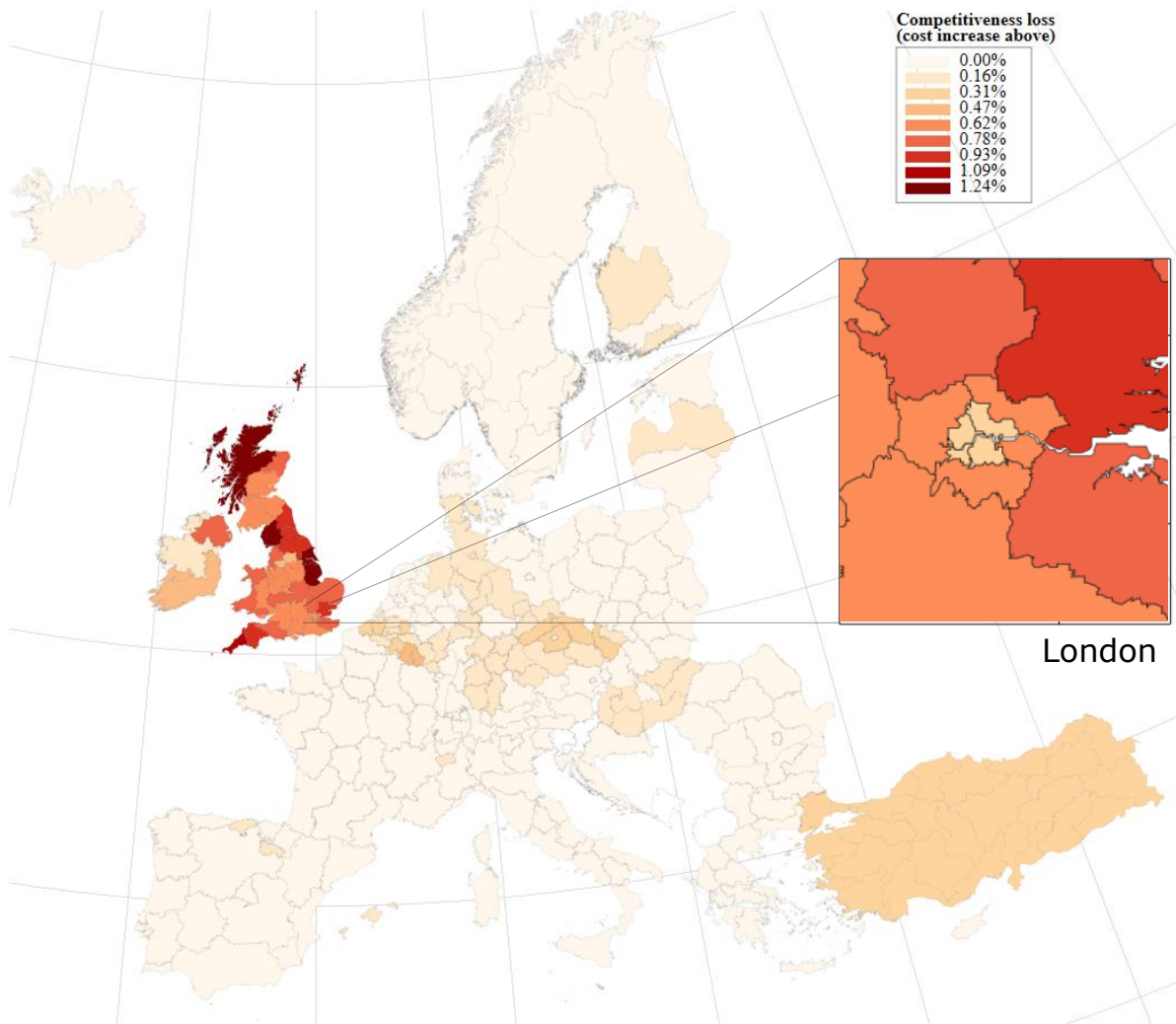
Interregional Cost chain price-model to determine the effect on the costs:

- We use measure of interregional dependence introduced by Johnson and Noguera (JIntE, 2012)
- Data: Regionally disaggregated global input-output tables for **2013**

Production cost increase



Brexit loss in competitiveness by NUTS 2 regions



production cost increase:

Large regional variation in UK:

- Minimum of 0.46% (Inner London)
- Maximum of 1.33% (Highlands and Islands)
- Europe's manufacturing core in Belgium, Germany, Czech and Hungary (car manufacturing) takes a harder hit

Reason for regional variation:

- Production structure (indirect dependence\exposure to trade with the continent)
- Sector composition (higher impact on agriculture and manufacturing than on services)

Region and sector specific production cost increases (preliminary results – additional to tariffs)



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	UKI1 Inner London	UKI2 Outer London
Average regional cost Increase	0,46%	0,64%
Crop and animal production, hunting and related service activities	5,2%	5,7%
Forestry and logging	4,5%	4,7%
Mining of coal and lignite	3,3%	2,9%
Fishing and aquaculture	3,2%	3,3%
Manufacture of wood and of products of wood and cork, except furniture; manufa	2,7%	2,5%
Manufacture of food products	2,5%	3,2%
Manufacture of textiles	2,5%	2,4%
Printing and reproduction of recorded media	2,4%	2,4%
Manufacture of paper and paper products	2,3%	2,0%
Manufacture of chemicals and chemical products	2,1%	2,1%
Manufacture of coke and refined petroleum products	1,7%	1,9%
Manufacture of basic metals	1,6%	1,7%
Manufacture of rubber and plastic products	1,5%	1,6%
Manufacture of other non-metallic mineral products	1,3%	1,4%
Manufacture of fabricated metal products, except machinery and equipment	1,3%	1,4%
Manufacture of machinery and equipment n.e.c.	1,3%	1,4%
Manufacture of electrical equipment	1,3%	1,3%
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1,1%	1,3%
Manufacture of motor vehicles, trailers and semi-trailers	1,1%	1,1%
Manufacture of computer, electronic and optical products	1,1%	1,2%
Wholesale and retail trade and repair of motor vehicles and motorcycles	1,0%	1,1%
Manufacture of furniture	0,9%	1,0%
Repair and installation of machinery and equipment	0,9%	0,9%
Manufacture of other transport equipment	0,8%	0,9%

Region and sector specific production cost increases (preliminary results – continued – additional to tariffs)



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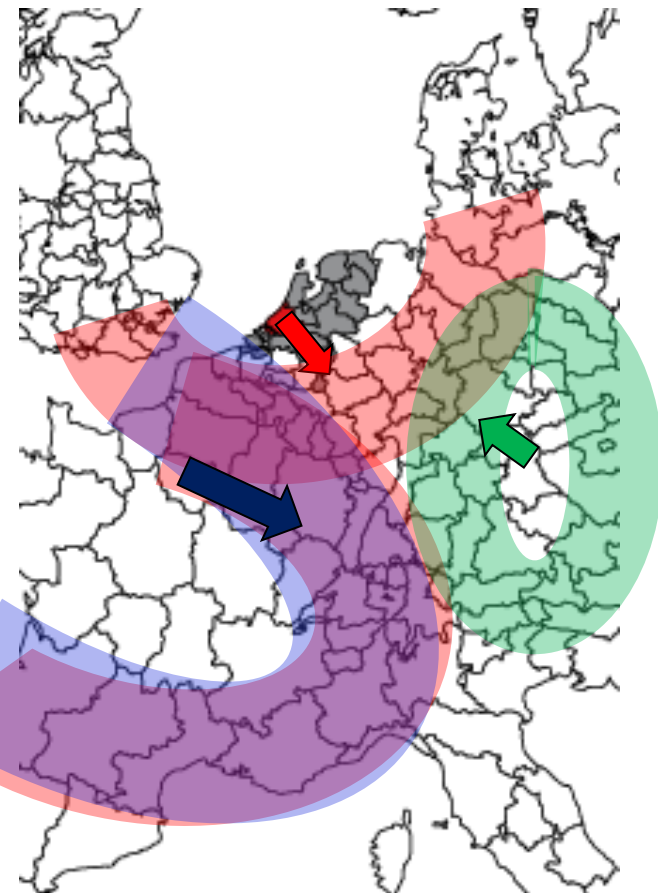
Electricity, gas, steam and air conditioning supply	0,8%	0,8%
Sewerage	0,7%	0,8%
Water collection, treatment and supply	0,7%	0,7%
Construction of buildings	0,7%	0,7%
Retail trade, except of motor vehicles and motorcycles	0,7%	0,7%
Wholesale trade, except of motor vehicles and motorcycles	0,7%	0,6%
Water transport	0,6%	0,7%
Land transport and transport via pipelines	0,6%	0,7%
Warehousing and support activities for transportation	0,6%	0,7%
Air transport	0,6%	0,6%
Postal and courier activities	0,6%	0,6%
Motion picture, video and television programme production, sound recording and	0,6%	0,6%
Publishing activities	0,5%	0,6%
Food and beverage service activities	0,5%	0,6%
Telecommunications	0,5%	0,5%
Computer programming, consultancy and related activities	0,5%	0,5%
Architectural and engineering activities; technical testing and analysis	0,5%	0,5%
Insurance, reinsurance and pension funding, except compulsory social security	0,5%	0,6%
Financial service activities, except insurance and pension funding	0,5%	0,5%
Activities auxiliary to financial services and insurance activities	0,5%	0,5%
Real estate activities	0,4%	0,4%
Other professional, scientific and technical activities	0,4%	0,4%
Legal and accounting activities	0,4%	0,4%
Scientific research and development	0,4%	0,4%
Advertising and market research	0,4%	0,4%
Rental and leasing activities	0,3%	0,5%
Security and investigation activities	0,3%	0,4%

Rotterdam exports

Paris exports

Vienna exports

Paris is a larger **competitor**
than Vienna because
Rotterdam and Paris have
the **largest market overlap**

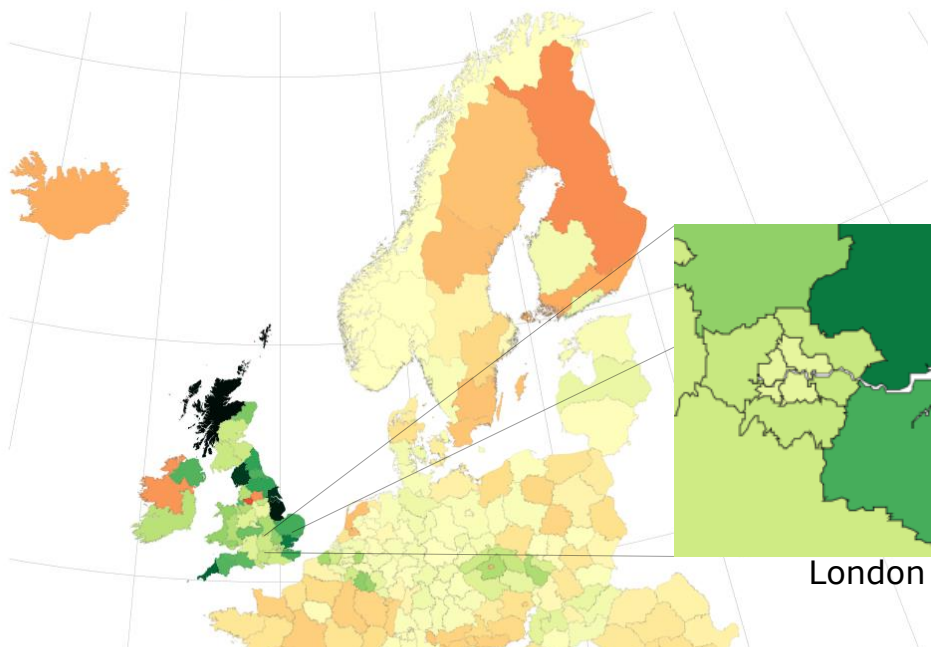


Competitiveness losses and gains

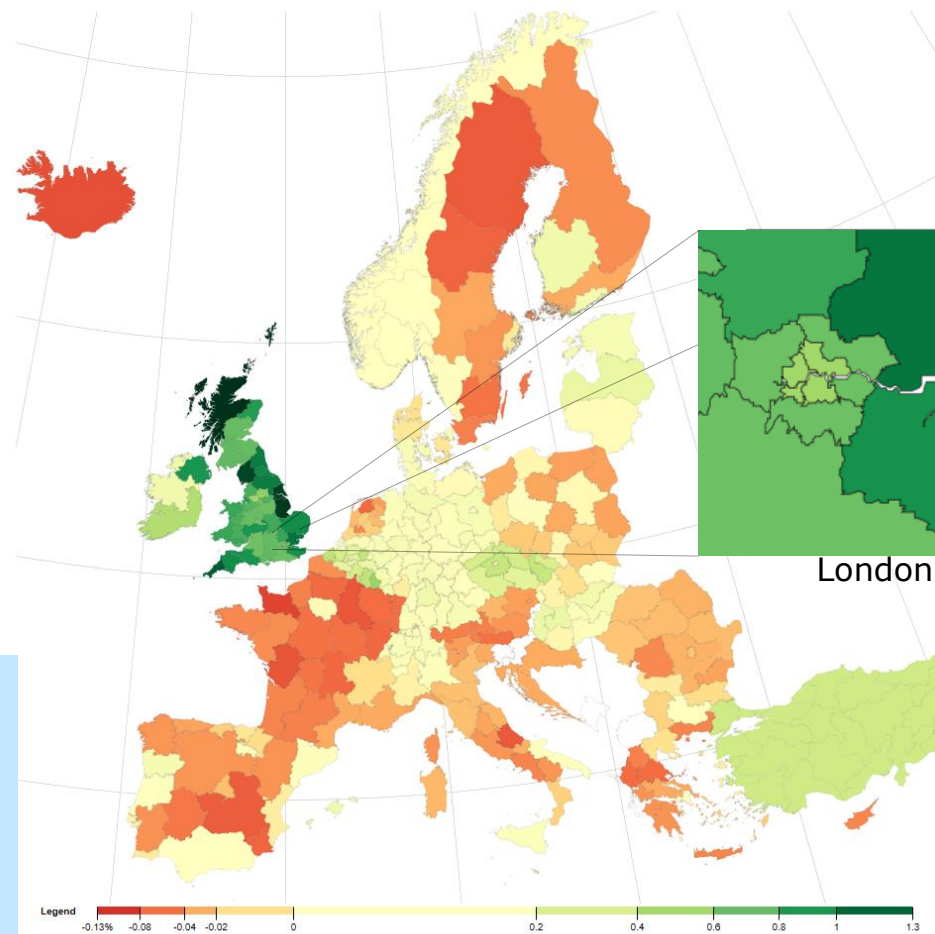


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Brexit loss in competitiveness by NUTS 2 regions



Brexit loss in International competitiveness by NUTS 2 regions



- **Regional competition (cost increase relative to competitors):**
- Manchester firms win, London not,
- Because of the international component in competition
- Substantial Loss in competitiveness, also for London, especially international

Competition policies to compensate loss?



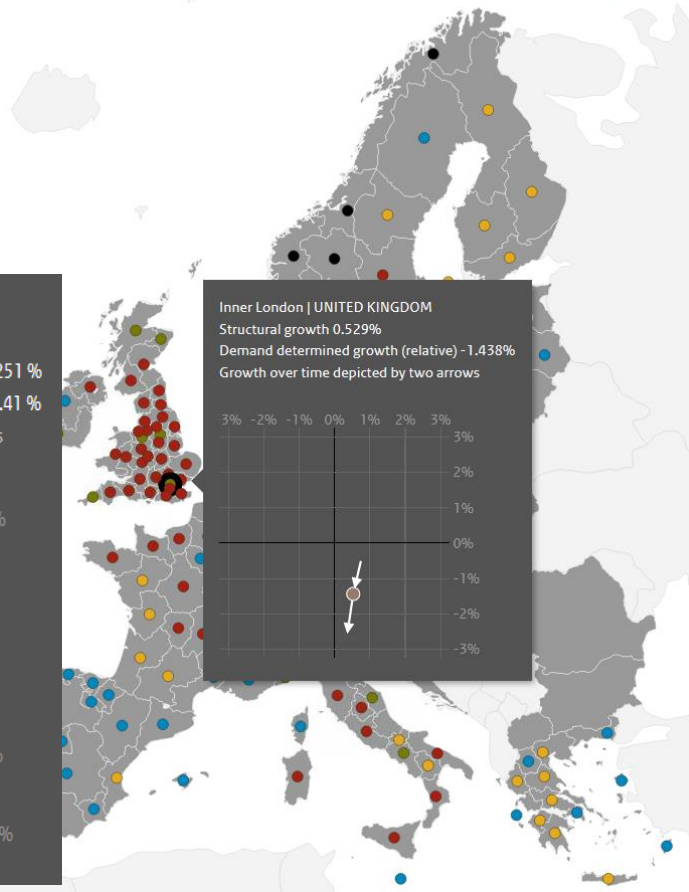
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Show regions winning from Inner London

Show diagram

Explanation diagram

- GAINING REGIONS
- POTENTIALS
- LOSING REGIONS
- DECLINING REGIONS



Classification of regions:

- Horizontal: Structural growth (doing better than competitors).
- Vertical: Demand led growth (market access)

London:

- Good performance on Structural growth (doing better than competitors).
- Especially in comparison to other British regions

Financial Services:

- Reinventing itself after the crisis.
- Moving to structural growth

<http://themasites.pbl.nl/winnaars-verliezers-regionale-concurrentie/>

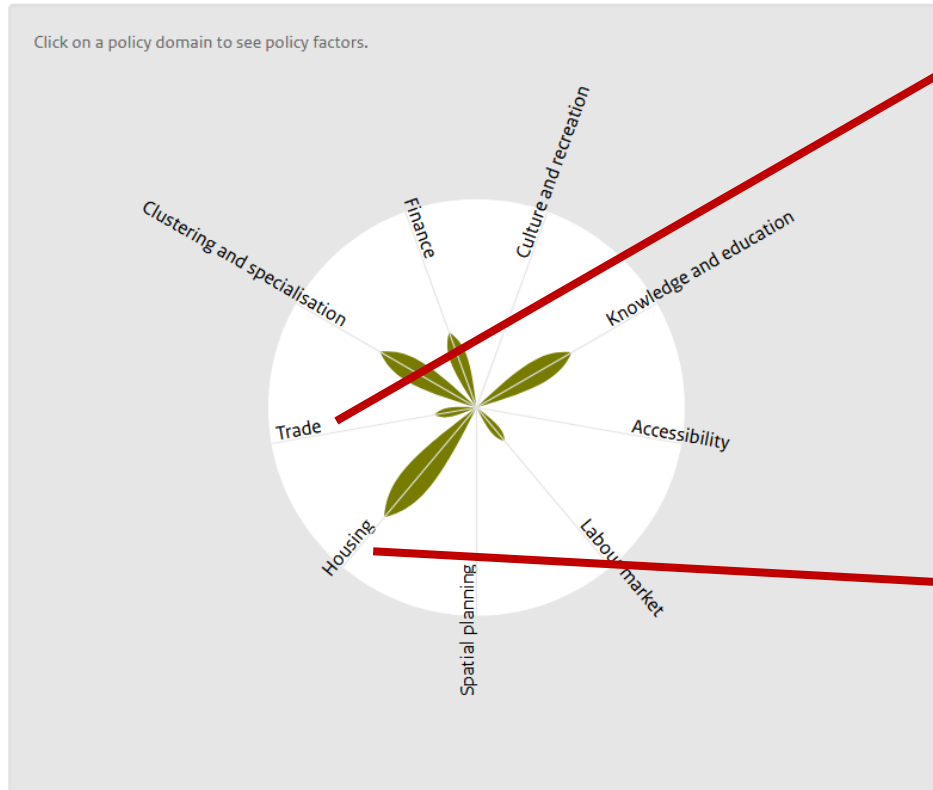
<http://www.torre.nl/eugrowth/bilingual4/>

Competition policies: Learning from regions that outperform London's financial sector!



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Assessment Agency

Important policy domains to strengthen the competitiveness of **Inner London**
by comparing to **winning regions** ▼



Trade

BELOW AVERAGE ABOVE AVERAGE

Brexit related! Making it worse

- Change in degree of openness
- Change in openness of the sector Forestry and mining
- Change in international degree of openness
- International degree of openness

International openness of the sector Forestry and mining

Degree of openness

Openness of the sector Forestry and mining

Change in international openness of the sector Forestry and mining

IMPORTANT LESS IMPORTANT IMPORTANT POTENTIALLY IMPORTANT NOT IMPORTANT

Housing

BELOW AVERAGE ABOVE AVERAGE

Affordability of housing

Quality of housing

Living surroundings

IMPORTANT LESS IMPORTANT IMPORTANT POTENTIALLY IMPORTANT NOT IMPORTANT



The Economic Impacts of Brexit on the UK, its
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Brexit Challenges for Higher Education

Dr. Simon Marginson, University College London and UKICE

ESRC research on Brexit and higher education: the research questions

1. What are the perceived implications of Brexit for UK HEIs as their executive leaders and other operational personnel see it?
2. What are the organisational capabilities of UK HEIs to monitor their environment and to judge, strategize, respond, initiate and make changes, in relation to Brexit?
[interviewing in 12 universities]
3. How are these factors differentiated by HEI? What does this mean for HE system design?

Project personnel: Simon Marginson, William Locke and Ludovic Highman (UCL Institute of Education), Vassiliki Papatsiba (University of Sheffield)



EU and UK higher education: menu of issues

- **Revenues**
 - Horizon 2020 and other research support
 - European structural funds and EIB loans
 - Incoming EU student fees in 1st and 2nd degrees
 - *Non-EU student fees—the ‘filler’ of HE revenue gaps*
- **People and ideas**
 - Contribution of EU doctoral students to UK research
 - EU-citizen staff in UK HEIs, future recruitment
- **Cross-border student learning**
 - Incoming and outgoing Erasmus students
- **Orientation and strategies**
 - Partnerships beyond Europe
 - Universities and regional/local communities

Brexit and higher education: 5-10 year horizon

	Best case	Middle case	Worst case
FINANCIAL FLOWS			
Horizon 2020 and other research	No change (current net gain £3 billion)	UK stays in most, but pays what it takes	Rest of world access only
ERDF, EIB and matching funds	UK government replaces all funds	Some UK funds in lieu, politics decides	All funding disappears
EU student revenues	Net gain at higher fee, but differential	Modest decline affects many	Major income fall in many HEIs
Other international student revenues	Policy/regulation opens up: big growth	Slow return to modest growth	Absolute decline, differential effects
TALENT FLOWS			
EU doctoral students	No change, flow continues as before	Loss of some very bright students	‘Not welcome’: big fall in EU numbers
EU-citizen academic staff	Very broad High Skill Migration pathway	Some loss present and future staff	Sharp fall in EU-citizen numbers
Study abroad by UK students	Erasmus role is maintained	UK government mobility scheme	Sharp fall in outward mobility

Brexit as uncertainty

- ‘...volatility is alright but uncertainty is difficult... you can’t put firm plans in place... There are more variables in play now than there have been for a long time’ (Russell Group finance executive)
- ‘We could be into the next government cycle before the impact really becomes visible’ (Post-1992 executive)
- ‘the impact will not be equal across the whole sector’ (Post-1992 executive)
- ‘We at the top end are being pushed away from coordination roles in projects, whereas the lower end, who are possibly less critical to [European] projects, seem to have lost them altogether’ (Russell Group executive)
- We are developing close bespoke alliances with selected universities in Europe and also beyond Europe (Russell group executive)
- We have no choice but to hedge against uncertainty with new markets [but] ... ‘we ignore at our peril our local community’ (Post-1992 Board of governors)
- ‘Relying on the old Commonwealth countries is an error’ (Post-1992 executive)



The Economic Impacts of Brexit on the UK, its
Regions, its Cities and its Sectors

Service Sectors: competitiveness challenges

Yong Jing Teow, CBI



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Regions, its Cities and its Sectors

Service Sectors: competitiveness challenges

Dr. Ingo Borchert, University of Sussex, UKTPO

UKTPO

UK TRADE POLICY
OBSERVATORY

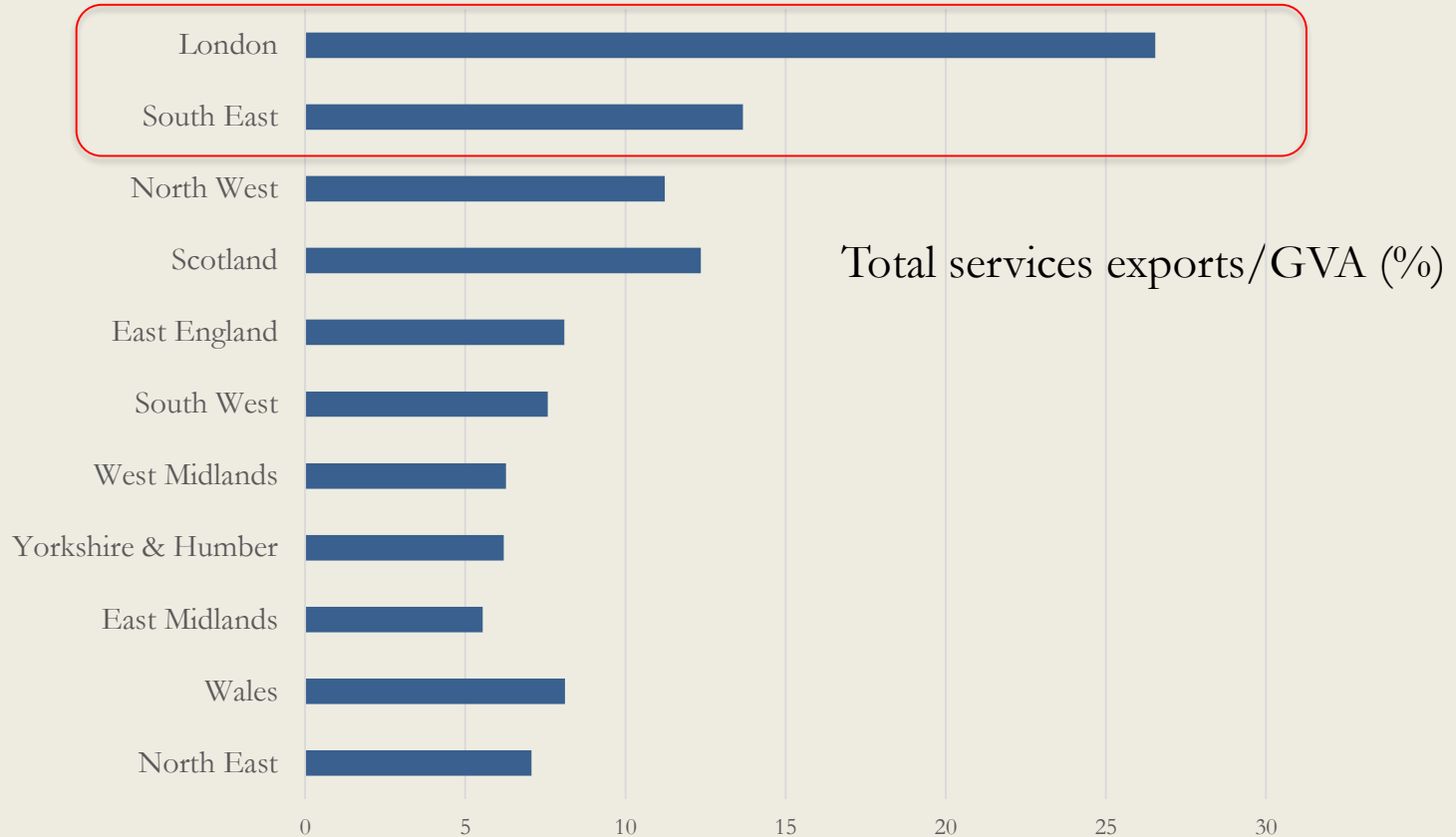
Challenges for UK services sectors

Ingo Borchert

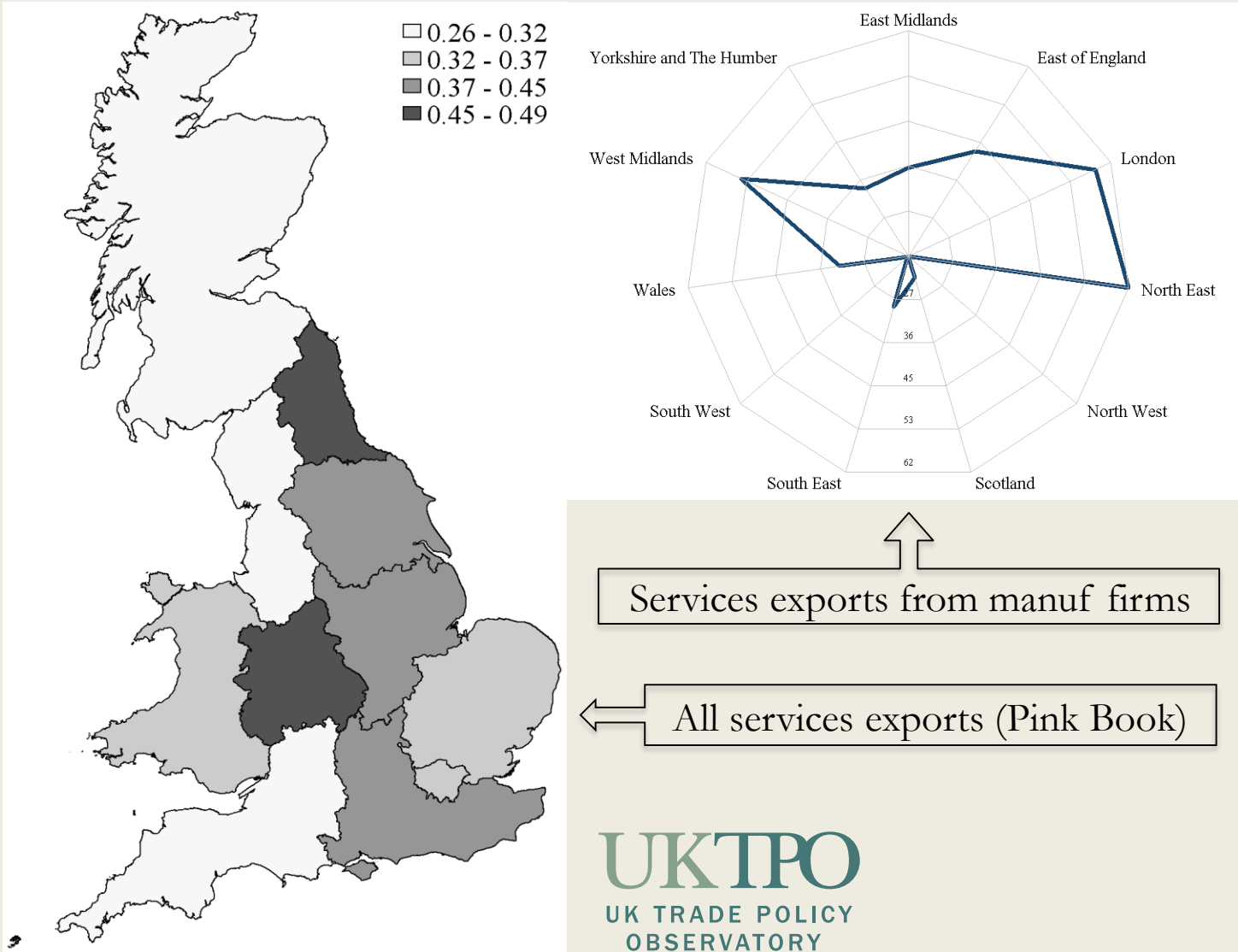
Senior Lecturer in Economics

University of Sussex and UKTPO

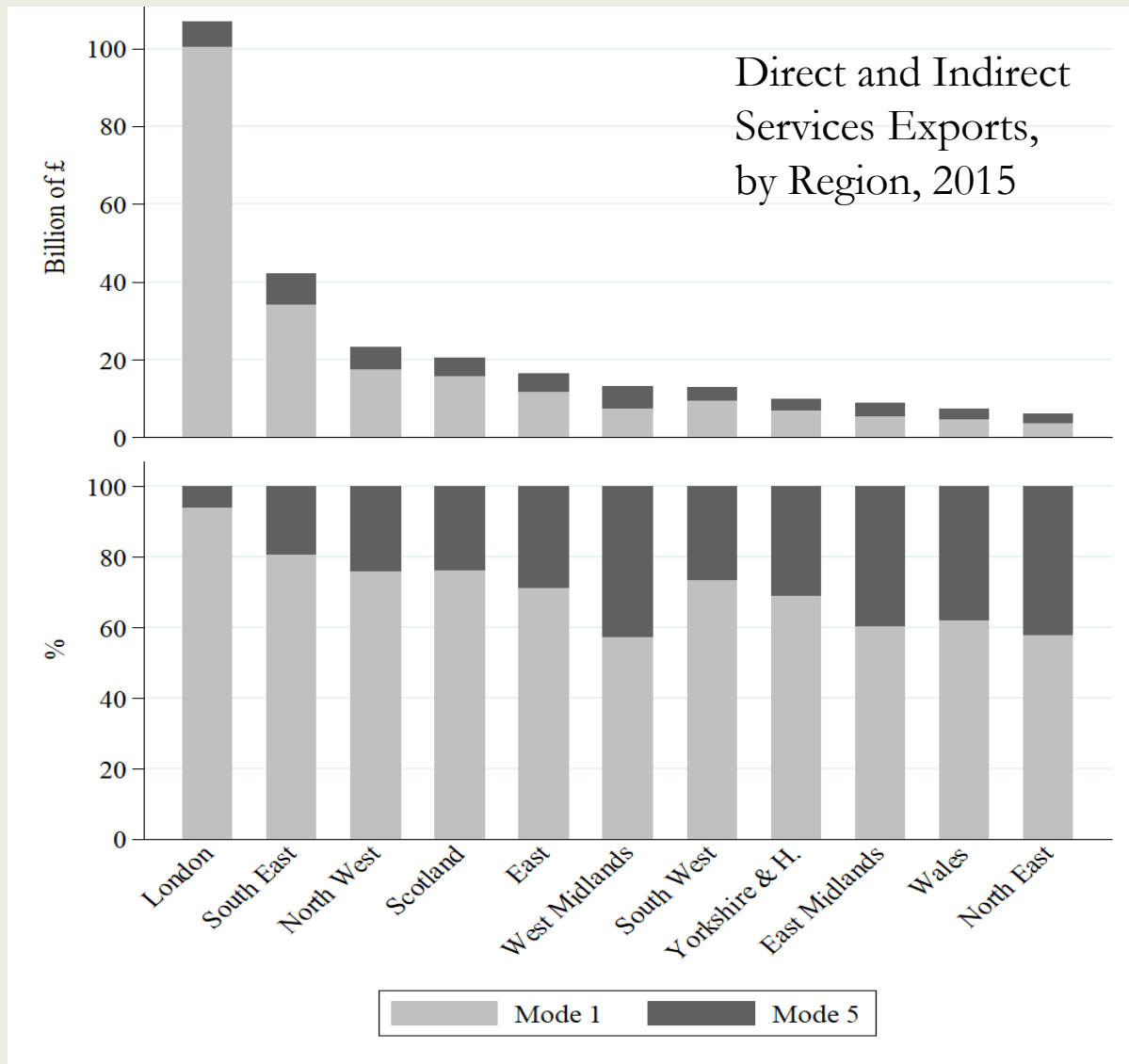
Exposure to Services Trade



EU orientation of services exports



Services embodied in Manufg Exports



Thank you

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Service Sectors: competitiveness challenges

Richard Chaplin, Managing Partners Forum

The challenges raised by Brexit for professional services

Richard Chaplin
Founder & Chief Executive
Managing Partners' Forum
18 May 2018

Brexit survey key facts

- Survey conducted in January 2018
- **35** responses - 71% CEOs; 18% other C-Suite
- **60%** of respondents based in London; 40% elsewhere
- **43%** law firms; 20% accountancy; 20% consultancy; 17% property
- Brexit glossary provided to ensure level playing field
- Presented as evidence to a hearing of the House of Lords EU Internal Market subcommittee held on 31 January

Impact on firm's financial performance

SOFT BREXIT

- Short-term boost
- Followed by modest decline

HARD BREXIT

- Short-term boost
- Followed by significant decline
 - Revenues from EU27 clients are expected to decline by more than new revenues from other countries
 - Work for EU27 clients will increasingly be serviced from non-UK offices

Talent

- **54%** of respondents consider recruitment of non-UK nationals to be either essential or important for their firms
- **48%** often send their UK nationals to EU27 countries to deliver services to local clients on a temporary basis

Trading arrangements

- **74%** consider the EU Services Directive to be essential or important to facilitate supply of services to EU clients
- Very strong agreement that WTO membership will not allow most exports of services to the EU27 to continue as at present, in particular having a foreign commercial presence (mode 3) and movement of natural persons (mode 4)

Legal structures

- **39%** believe that Freedom of Establishment for individuals has an essential or important impact on their firm's legal structure
- **56%** of these respondents are looking to restructure their firm if there is no mutual recognition of corporate structures between the UK and the EU27

Priorities for Government

The top priorities for Government in helping professional firms navigate Brexit are seen as:

1. Maintain **freedom of movement** for EU27 nationals
2. **Withdraw Article 50** (ie reverse Brexit)
3. Focus on making the UK a **more attractive place** to do business

Contingency planning

(January data)

- **77%** of respondents are analysing their options
- **20%** of contingency plans are already being implemented
- **37%** of respondents report that more than 50% of their clients are in the process of planning for Brexit

Reasonable to assume that these numbers will now be much higher

77% of UK professional firms are currently analysing the likely impact of hard and soft Brexit on the UK's largest sector, with 20% of contingency plans already being implemented

The Forum's second Brexit survey was conducted in January 2018. The primary purpose was to provide a reliable benchmark for Forum members and Government. This report will be shared with the media, survey respondents, Forum members, the Forum's Advisory Board, Government officials, the Professional & Business Services Council (PBSC) and the House of Lords.

KEY FINDINGS

- **Contingency planning** – 77% of respondents are analysing their options with 20% of contingency plans already being implemented. 37% of respondents report that more than 50% of their clients are in the process of planning for Brexit.
- **Impact of hard v soft Brexit** - Respondents anticipate a short-term boost to their firm's financial performance, followed by modest decline under soft Brexit but significant decline under hard Brexit. Under hard Brexit, revenues from EU27 clients are expected to decline by more than new revenues from other countries, and work for EU27 clients to be increasingly serviced from non-UK offices.
- **Talent** - 54% of respondents consider recruitment of non-UK nationals to be either essential or important for their firms. 48% often send their UK nationals to EU27 countries to deliver services

Free download
of survey
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www.mpfglobal.com

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Service Sectors: competitiveness challenges

Anthony Raine, Deloitte



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Brexit policy challenges

Professor Tony Travers, LSE

Professor Jonathan Portes, King's College London and UKICE

Chair: Professor Philip McCann, The University of Sheffield



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Professor Tony Travers, London School of Economics



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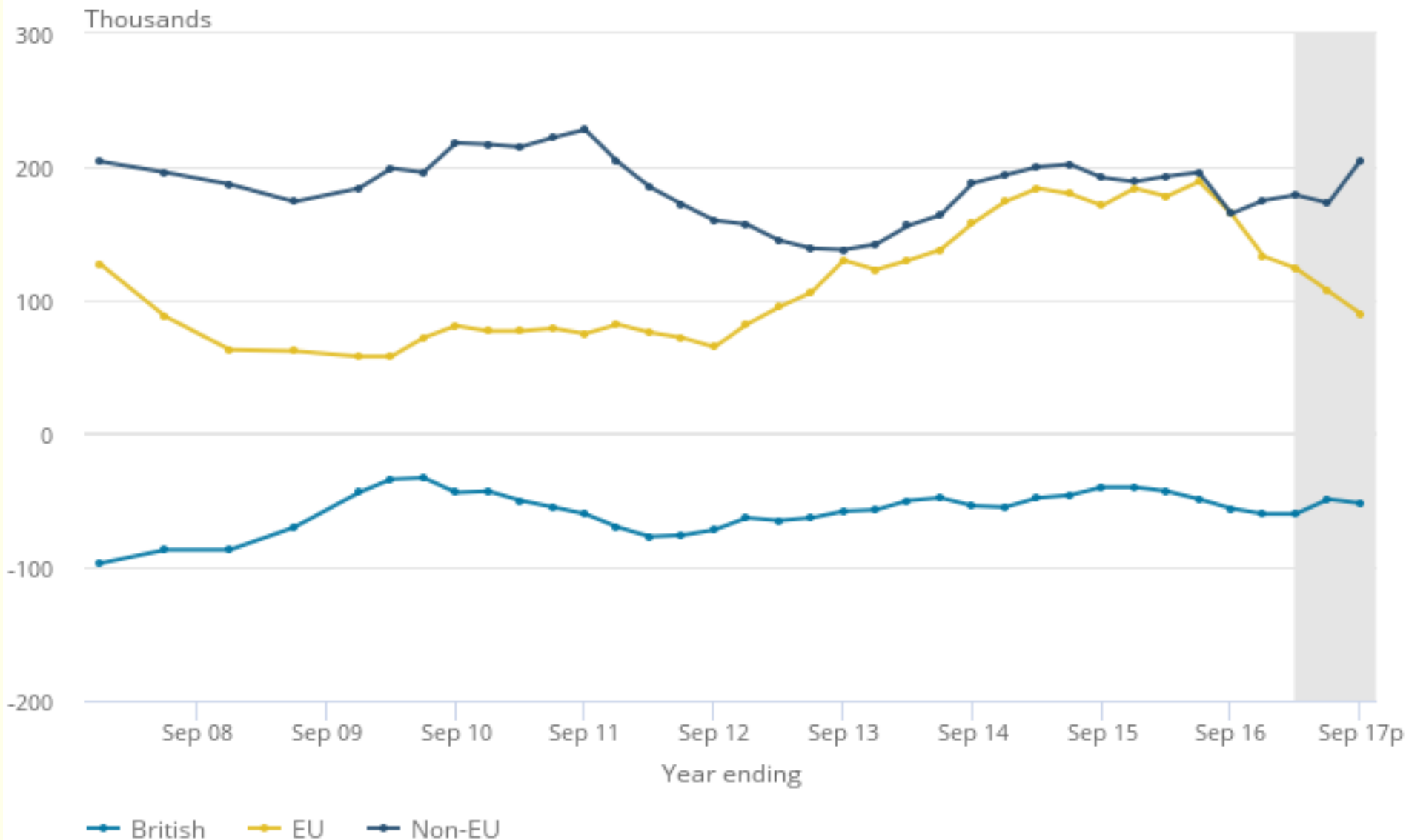
The **UK** in a **Changing Europe**

Immigration after Brexit
Jonathan Portes
King's College London & UKandEU
May 2018

@jdportes UKandEU.ac.uk



Net migration to UK by citizenship



Immigration: what next (1)? Transition process..

- Withdrawal Agreement will cover EEA nationals resident in UK and UK nationals elsewhere in EEA
- Free movement will continue in transition period
- EU Withdrawal Bill will transpose EU law into domestic law
- Process of granting “settled status”/“temporary” leave to remain
 - 3 million plus EU citizens eligible
 - New “light-touch” digital system
 - Windrush scandal: political and administrative implications
 - Complicated interaction between domestic law/administration, Withdrawal Agreement and ECJ continuing role

Immigration: what next (2)? Future relationship

- Negotiations on future relationship on hold – aim is for “political declaration” by October
- EU guidelines: “ambitious provisions” on natural persons
- UK: Cabinet split (again!) on whether to make “offer” on labour mobility
- Service providers, students, self-employed?

Immigration: what next (3)? Future system.

- September 2018: Migration Advisory Committee report on economic impacts of immigration and implications for future policy;
- Late 2018? Immigration White Paper
- 2019: Immigration Bill and structure of a post-Brexit system?

Post-Brexit system

- Likely to be based on current system for non-EEA nationals: work permits with skills, salary, qualification thresholds.
- Key questions:
 - European preference?
 - Sector-based schemes?
 - Regional differentiation?
 - Overall system – “liberal” vs restrictionist

Government has so far kicked the can on all of these



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Closing Speech

Professor Raquel Ortega-Argilés, University of Birmingham

**Don't forget to fill in the:
Feedback assessment form!!**