UK Trade in the Wake of Brexit

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December 2022

Brexit & trade

- How has Brexit affected UK trade?

- Key question for understanding economic consequences of Brexit

- Natural experiment on how single market and customs union membership affect trade

- Economists forecast TCA would lead to large fall in UK-EU trade
  - Bevington et al. (2019) forecast long-run decline of around 30%

UK trade growth slowdown
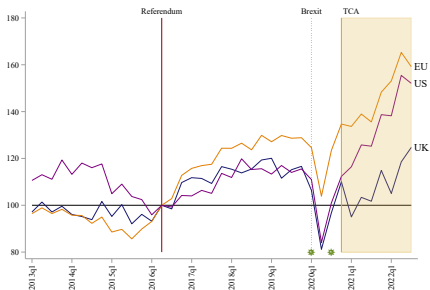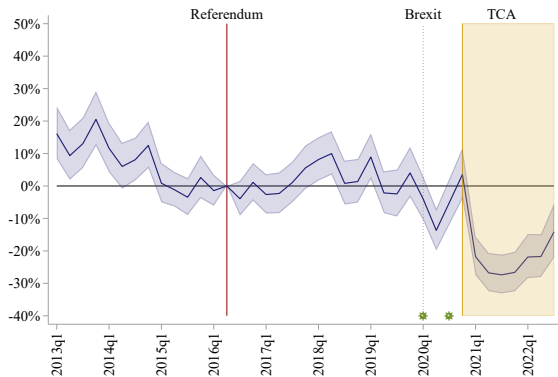

Goods exports
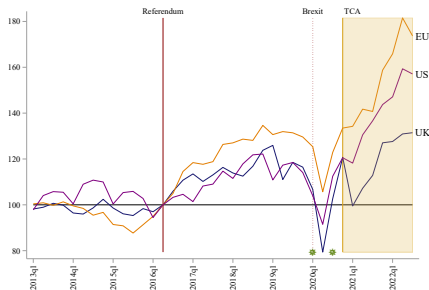
Goods imports

- UK trade growth since referendum lower than other major economies
- Gap has grown since start of Covid-19 pandemic
- Is slow UK trade growth due to TCA or other weaknesses in UK economy?

Conceptual framework

- Model bilateral trade flows as determined by
  1. Exporter supply capacity – productivity, input costs
  2. Importer demand – income, market size, market competitiveness
  3. Bilateral openness – trade policy, transport costs

- Aim to isolate impact of Brexit on bilateral openness between UK and EU
  - Under TCA UK is no longer member of EU's single market or customs union $\Rightarrow$ higher non-tariff barriers to UK-EU trade

- Brexit may also affect exporter supply capacity and importer demand through supply chain linkages and general equilibrium adjustments. Do not capture these effects

Estimation strategy

- Identify Brexit effect on bilateral openness by comparing growth in UK trade with EU vs non-EU countries

- Use data on US & EU goods trade to control for changes in supply and demand conditions outside the UK

- Analyse changes within 1,200 detailed products to control for shocks to sectoral composition of trade

- Compare 3 periods
  1. Pre-referendum
  2. Between referendum & TCA: anticipation & uncertainty
  3. TCA: higher UK-EU trade costs

- Caution: Brexit led to changes in data collection methods for UK-EU trade

Regression specification

Goods imports

- No significant import diversion away from EU between referendum & TCA
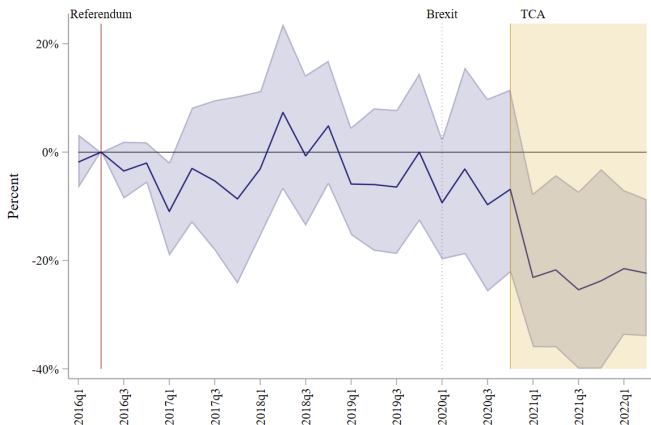
- TCA has reduced imports from EU by around 20%

Policy   Product type

Goods exports
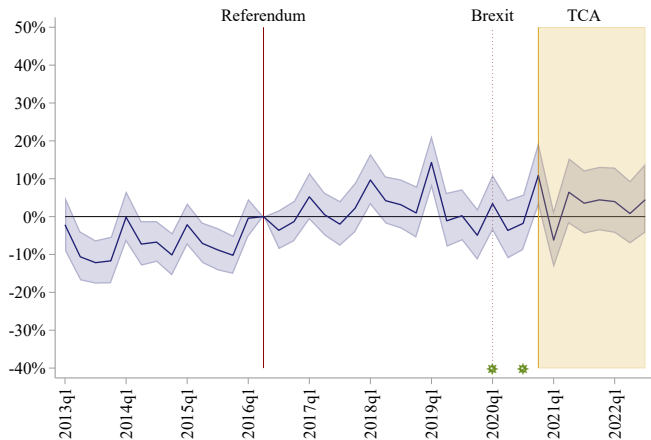
- Do not find evidence of sustained drop in EU relative to non-EU exports

Policy   Product type

Services trade

- Services account for around half of UK exports and one-third of UK imports

- Single market is world's deepest trade agreement for services

- How has Brexit affected bilateral openness between UK and EU in services?

- Compare growth in EU vs non-EU trade within 32 services categories
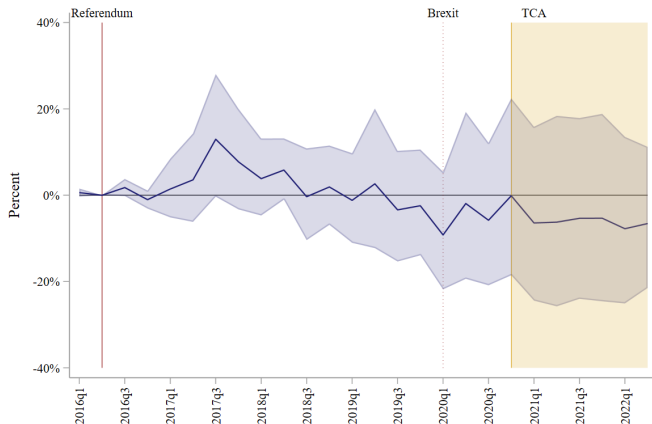 - Exclude travel and transport services: hardest hit by Covid-19

Regression specification

Services imports

- Find TCA reduced services imports from EU by around 25%

Services exports

- No evidence of significant drop in EU relative to non-EU exports
- Weak evidence that TCA reduced exports if use bilateral instead of regional exports

Summary

- TCA has reduced goods and services imports from EU relative to rest of world by around 20%

- Do not find evidence of decline in EU relative to non-EU exports so far

- Ongoing research
  - Why do estimated import and export effects of TCA differ?
  - Has TCA reduced UK's export supply capacity leading to lower exports to non-EU destinations?
  - Have changes to data collection methods affected measures of UK-EU trade?

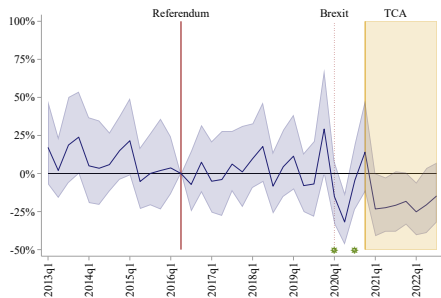- Heterogeneity in import effects by EU trade policy exposure?
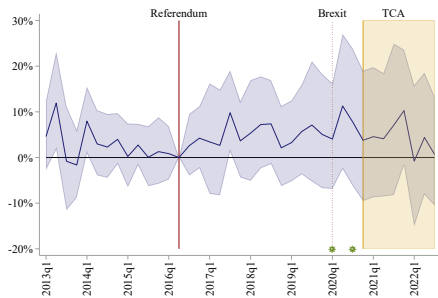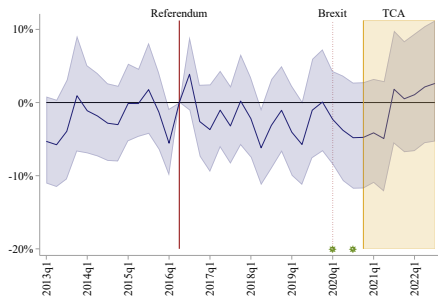
Tariffs

Non-tariff barriers

Back
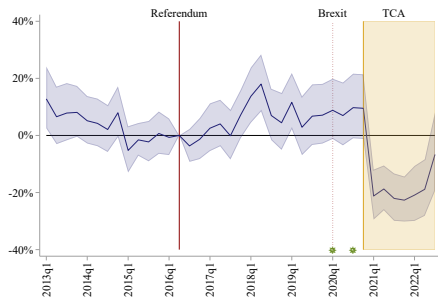
Capital goods

Consumption goods

Back

- Heterogeneity in export effects by EU trade policy exposure?
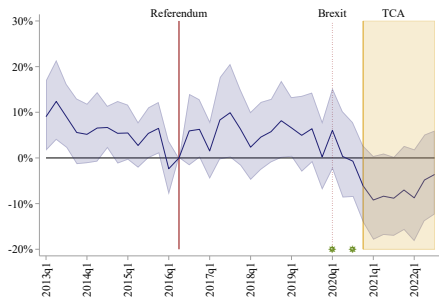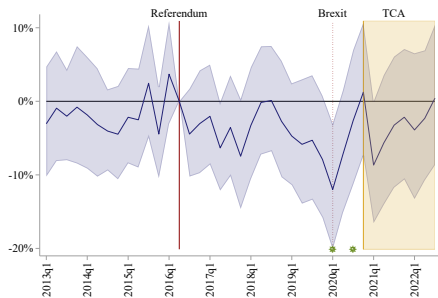
Tariffs

Non-tariff barriers
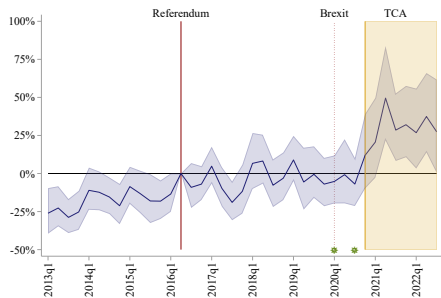
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Capital goods
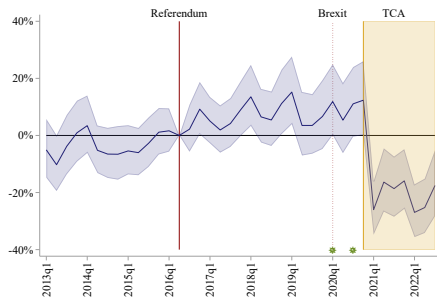
Consumption goods

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Empirical specification: goods

$$\ln V_{pct}^{UK} = \sum_t \beta_t D_t EU_c + \gamma \ln V_{pct}^{US} + \delta \ln V_{pct}^{EU} + \alpha_{pc} + \alpha_{pt} + \epsilon_{pct}$$

- p HS4 digit products; c regions – EU & rest of world; t quarters
- V either export or import values
- α_{pc}, α_{pt} product-region & product-quarter fixed effects
- D_t quarter dummy; EU_c EU dummy
- Coefficient of interest: β_t difference-in-differences estimate of change in UK trade with EU relative to rest of world in quarter t

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Empirical specification: services

$$\ln V_{pct}^{UK} = \sum_t \beta_t D_t EU_c + \alpha_{pc} + \alpha_{pt} + \epsilon_{pct}$$

- p services categories; c regions – EU & rest of world; t quarters

- V either export or import values

- α_{pc}, α_{pt} product-region & product-quarter fixed effects

- D_t quarter dummy; EU_c EU dummy

- Weight regressions using 2015 UK export and import shares by services category

- Coefficient of interest: β_t difference-in-differences estimate of change in UK trade with EU relative to rest of world in quarter t

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