

Cynulliad Cenedlaethol Cymru | National Assembly for Wales

Y Pwyllgor Materion Allanol a Deddfwriaeth Ychwanegol | External Affairs and Additional Legislation Committee

Y goblygiadau i Gymru wrth i Brydain adael yr Undeb Ewropeaidd | Implications for Wales of Britain exiting the European Union

IOB 01

Ymateb gan Ysgol Economeg Llundain, Dr Swati Dhingra

Evidence from London School of Economics, Dr Swati Dhingra

## Bio

Swati Dhingra is a Lecturer (Assistant professor) in Economics at the London School of Economics, researching globalisation and industrial policy. She is co-author of the recent “Life after Brexit” report by LSE’s centre for economic performance, which looked at the UK’s options outside the EU. She was on the Guardian’s Expert Panel on Brexit for Small Businesses. Swati is associate editor of the Journal of International Economics, and was awarded the FIW Young Economist Award and the Chair Jacquemin Award by the European Trade Study Group for her work on firms and globalization.

## Evidence

As the UK prepares to leave the European Union, there are three EU-related policies that are important for the Welsh economy. These are maintaining market access in manufacturing, retaining worker rights and securing domestic funding to support small enterprises.

First, **manufacturing** is a bigger share of the Welsh economy, compared to the UK as a whole. The main activities in manufacturing include plastics, meat processing and aircrafts manufacturing. The bulk of the UK’s trade in these sectors is with the EU. Leaving the EU would increase the cost of trading with the European Union. For example, on average, the tariff rates that the European Union charged to countries that are members of the WTO were 6%, 18% and 3.3% in these sectors in 2016. If the UK leaves the EU and is unable to negotiate duty-free access to the single market immediately, these tariff rates would apply to goods shipped from the UK to the EU.

Importantly, as UK and EU standards diverge, the non-tariff barriers to doing business would increase costs further. For example, the US is not part of the EU and faces substantial non-tariff costs when shipping transport equipment to the EU. These are estimated to be the equivalent of a tariff rate of 22% ([Dhingra et al 2016](#)). Leaving the EU would increase the tariff and non-tariff barriers that Welsh businesses would face when selling to the EU. This in turn would reduce trade and investment in Wales, leading to a contraction in manufacturing activity and jobs.

The primary focus of future trade policy should be to secure single market access, at least in the short term while negotiations proceed for a fresh trade deal in the future. The EU is a natural trade partner – it is rich and close to the UK. So securing market access to the EU should be prioritized over other trade deals. This would reduce the negative impact of Brexit on Welsh manufacturing activity.

Second, after leaving the EU, the UK would need to replace the existing set of EU **Worker Regulations**. These impact all the main sectors of the Welsh economy like health and social work and wholesale and retail trade. There has been a lot of discussion of onerous

EU regulations. But what is missing from this discussion is that the bulk of the estimated costs of EU regulations comes from two sets of policies – the EU's Climate Change and Renewable Energy policies and its Working Time directives ([Open Europe 2015](#)). Completely abandoning these may provide short-term gains for some businesses. But these short-term gains will harm workers. This is unnecessary as the UK already has one of the OECD's least regulated labor markets and product markets. So the short-term gains are small compared to the potential losses to workers from diluting the Working Time Directives.

Finally, Wales would need explicit plans from the government on **domestic policy**, such as infrastructure investments and transfers, because these will be important for small and medium enterprises that rely on EU procurement and funding. The WTO procurement agreement is much more limited than the procurement provisions of the EU, so this will negatively impact enterprises that rely on EU funding.

In conclusion, the Welsh economy would be better off after Brexit if :

1. the UK prioritizes single market access to the EU in future trade policy,
2. retains the working time directives of the EU, and
3. secures domestic funding to replace EU funding.