

OPINIONS ON FREE TRADE & BREXIT

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Outline

- Introduction
- Brexit
- How do citizens perceive trade and integration?
- Empirical evidence: winners and losers of globalisation
- Wrapping up

Literature

- Sampson, T. (2017) Brexit: The economics of international disintegration. *Journal of Economic Perspectives*, vol. 31.4, p. 163-184
- Teney, C., Lacewell, O.P. and de Wilde, P. (2014) Winners and losers of globalization in Europe: Attitudes and ideologies. *European Political Science Review*, vol. 6.4, p. 575-595
- Additional material
- HM Treasury (2016) Section 3 – Macroeconomic analysis of the alternatives to EU membership and the benefits of EU reform. Pages 121-150 in HM Treasury analysis: The long term economic impact of EU membership and the alternatives. Williams Lee Group

Introduction

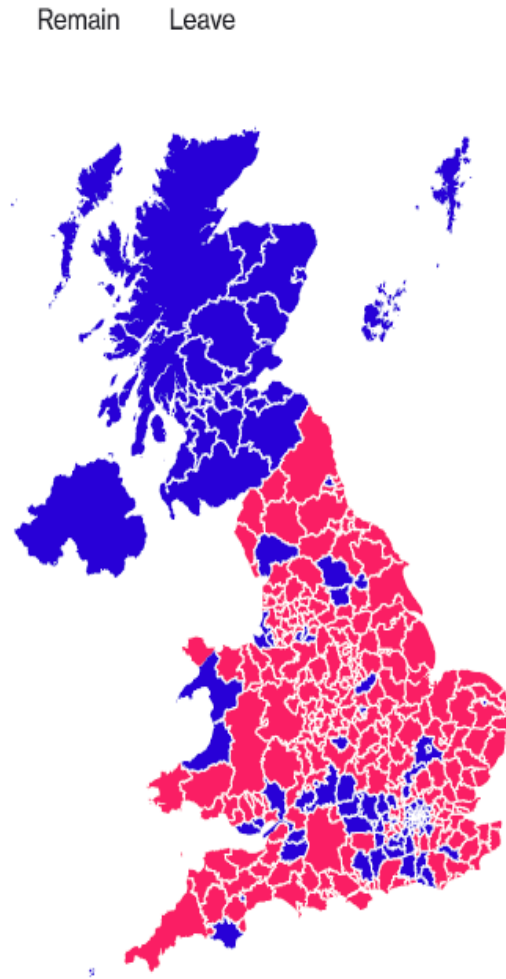
- **Trade theories indicate that trade is good for welfare**
- **Global economy is characterised by high level of globalisation**
 - Trade in goods and services, international capital investments, migration flows
- **The large majority of countries follow policies that foster globalisation**
- **Growing level of interdependence**
- **Growing levels of international governance to manage and foster interdependence**
 - EU strongest example
 - Growing number of PTAs

Recent decades

- **Growing dissatisfaction with globalisation and integration**
- **1999 Battle of Seattle**
 - Eye-opener for economists
- **Globalisation seen as one of the causes of latest crisis**
- **EU: growing indicators that citizens are questioning further integration**
 - Rejection of Constitution of Europe
 - Incapacity to deal with crisis
 - Unease with apparent attempts to move towards fiscal union
 - Sovereign debt crisis
- **Public is becoming increasingly aware of negative effects / adjustment costs of globalisation and integration**
 - Politicians listen to the voters

June 23rd, 2016





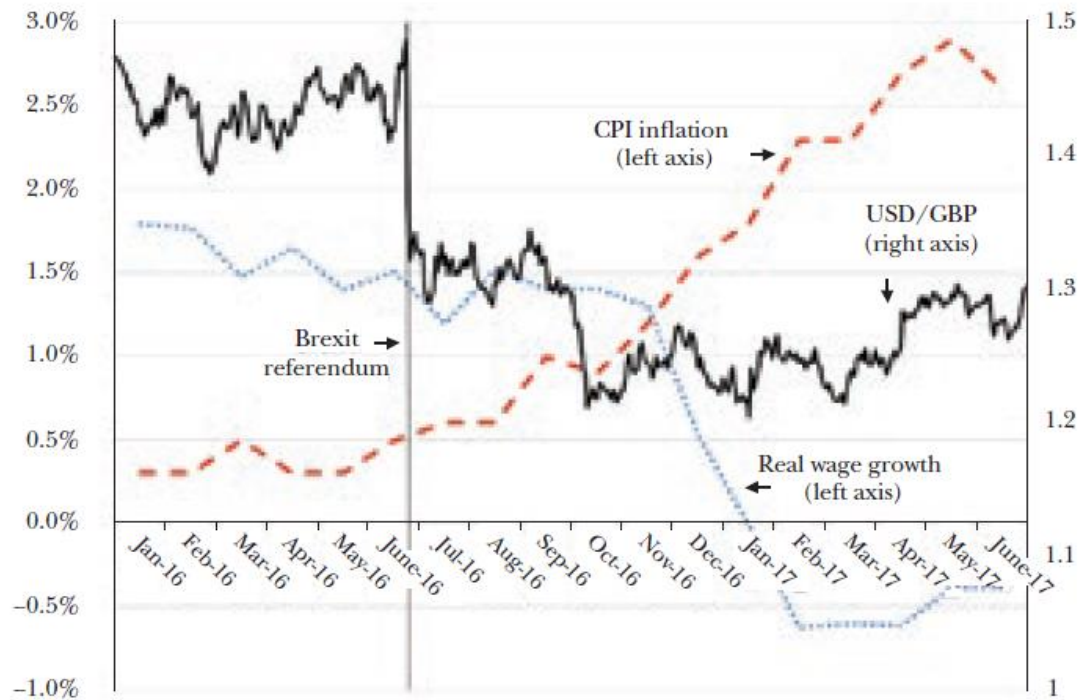
Regional totals

Scotland	62.0% / 38.0%
Northern Ireland	55.8% / 44.2%
North West	46.3% / 53.7%
North East	42.0% / 58.0%
Yorkshire & the Humber	42.3% / 57.7%
Wales	47.5% / 52.5%
East Midlands	41.2% / 58.8%
West Midlands	40.7% / 59.3%
South West	47.4% / 52.6%
East of England	43.5% / 56.5%
South East	48.2% / 51.8%
London	59.9% / 40.1%

Turnout 72.2%
51.9% voted leave

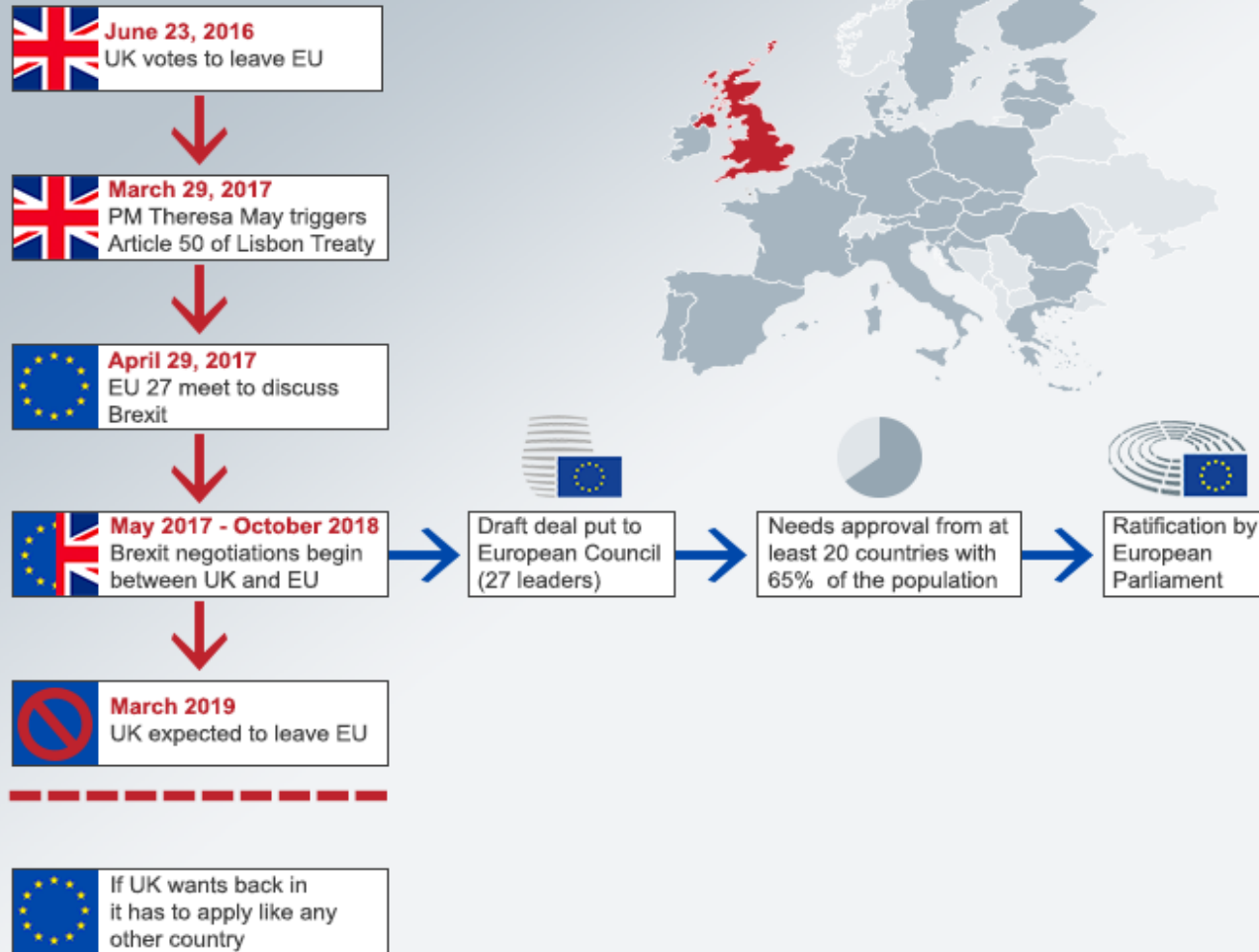
Economy response

Figure 1
UK Exchange Rate, Inflation, and Wage Growth

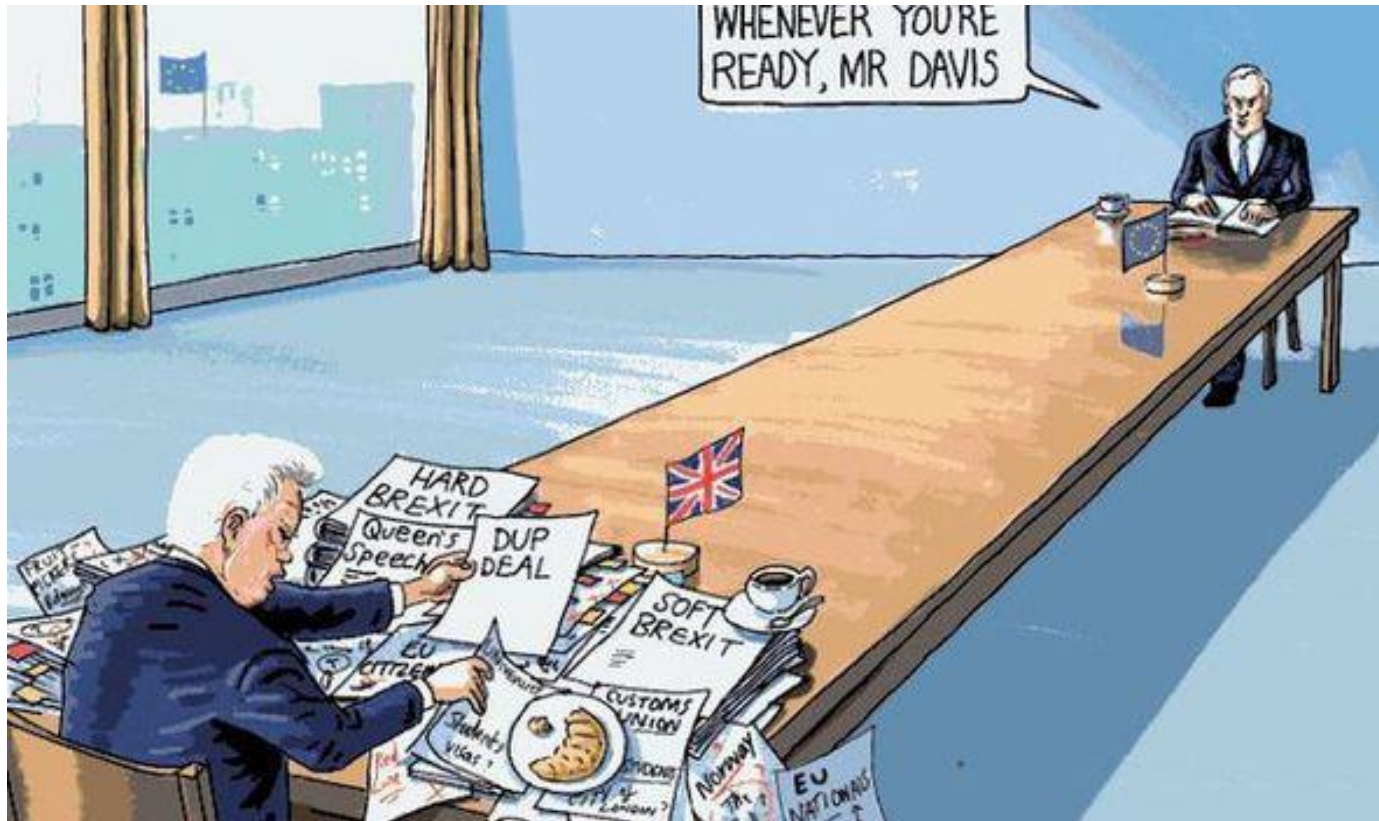


Source: Exchange rate from Bloomberg; CPI and real wage growth from Office for National Statistics.
Notes: USD/GBP is end-of-day rate. Inflation is annual change in CPI (series D7G7). Wage growth is annual change in seasonally adjusted Regular Pay (series A2F9).

Brexit Timeline



Negotiations are not running smoothly



Options for the UK

- **Leaving EU will lower welfare**
- **Join the European Economic Area (Norway, Iceland, Liechtenstein)**
 - Means staying in the EU's Single Market
 - Problem: all the rules will still apply; free flow of goods, services, capital & labour
- **Negotiate a free trade agreement with EU**
 - Unlikely that this will be done by end of 2018
 - Temporary agreement may be possible solution
 - This will also determine how UK can negotiate with other countries
 - So even Customs Union would not be feasible if UK wants to be independent
- **Trade with EU under WTO terms**
 - Might be starting position
 - The UK will start negotiating FTAs with other countries, so EU will also be part of this process

Estimations of the loss of welfare

- Taken from HM Treasury analysis

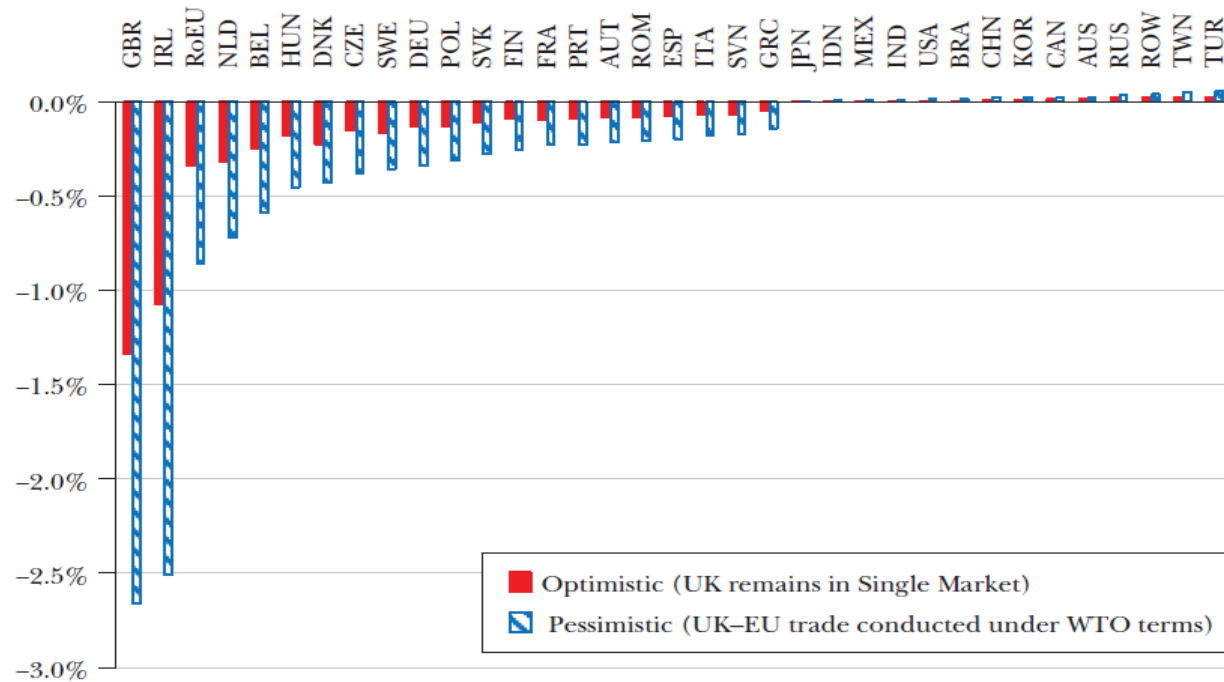
Annual impact of leaving the EU on the UK after 15 years (difference from being in the EU)

	EEA	Negotiated bilateral agreement	WTO
GDP level (%) – central	-3.8	-6.2	-7.5
GDP level (%)	-3.4 to -4.3	-4.6 to -7.8	-5.4 to -9.5
GDP per capita – central ^a	-£1,100	-£1,800	-£2,100
GDP per capita ^a	-£1,000 to -£1,200	-£1,300 to -£2,200	-£1,500 to -£2,700
GDP per household – central ^a	-£2,600	-£4,300	-£5,200
GDP per household ^a	-£2,400 to -£2,900	-£3,200 to -£5,400	-£3,700 to -£6,600
Net impact on receipts	-£20 billion	-£36 billion	-£45 billion

^aExpressed in terms of 2015 GDP in 2015 prices, rounded to the nearest £100.

Impact on EU

Figure 2
Estimated Welfare Effects of Brexit



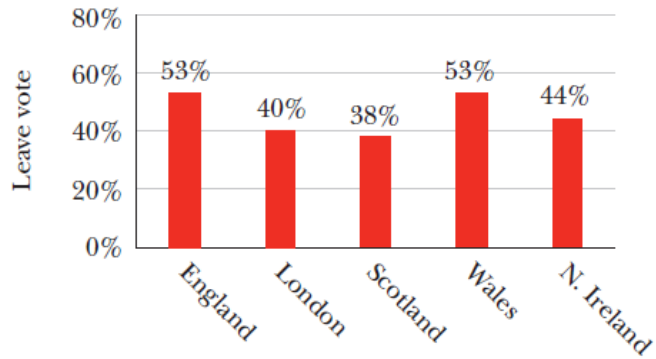
Source: Dhingra et al. (2017).

Notes: Estimates give the permanent percentage change in income per capita that has the same welfare effect as Brexit. In the optimistic scenario, the UK remains in the Single Market following Brexit. In the pessimistic scenario, UK-EU trade is conducted under WTO terms. See Dhingra et al. (2017) for details. The labels on the x-axis are World Bank country codes. RoEU = Rest of EU; ROW = Rest of World.

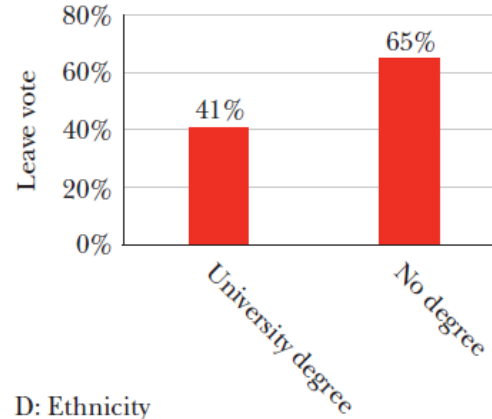
Who voted for Brexit?

Figure 3
“Leave” Vote Shares in Brexit Referendum

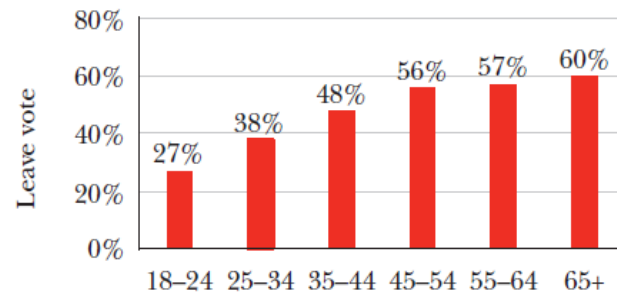
A: Region



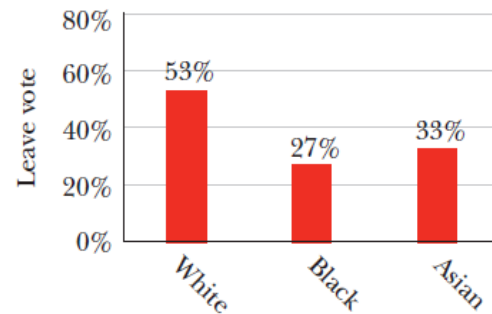
B: Education



C: Age



D: Ethnicity



Factors favouring leave vote

Voting to leave the European Union was strongly associated with holding socially conservative political beliefs, opposing cosmopolitanism, and thinking life in Britain is getting worse rather than better.

Education

Age

Economic situation, individual and regional

Social values

Opinions on immigration

Important observation

The observation that Brexit will impose economic costs even on many of its supporters establishes an important difference between Brexit and protectionist trade policies, such as anti-dumping duties or restrictions on agricultural imports, which receive support because they shield particular groups of voters from losses caused by economic integration. In this sense, support for Brexit is a distinct phenomenon from opposition to trade with China among manufacturing workers in the United States. The insignificance of economic considerations in explaining the Brexit vote also suggests the negative correlation between education and voting to leave the European Union is not driven by economic interests, but instead by how education is related to voters' values, identities, and information sets. However, it is consistent with evidence that economic self-interest is less important in explaining attitudes towards immigration than cultural attachments and concerns about how immigration affects the nation as a whole

Not entirely convincing though

Two possible explanations

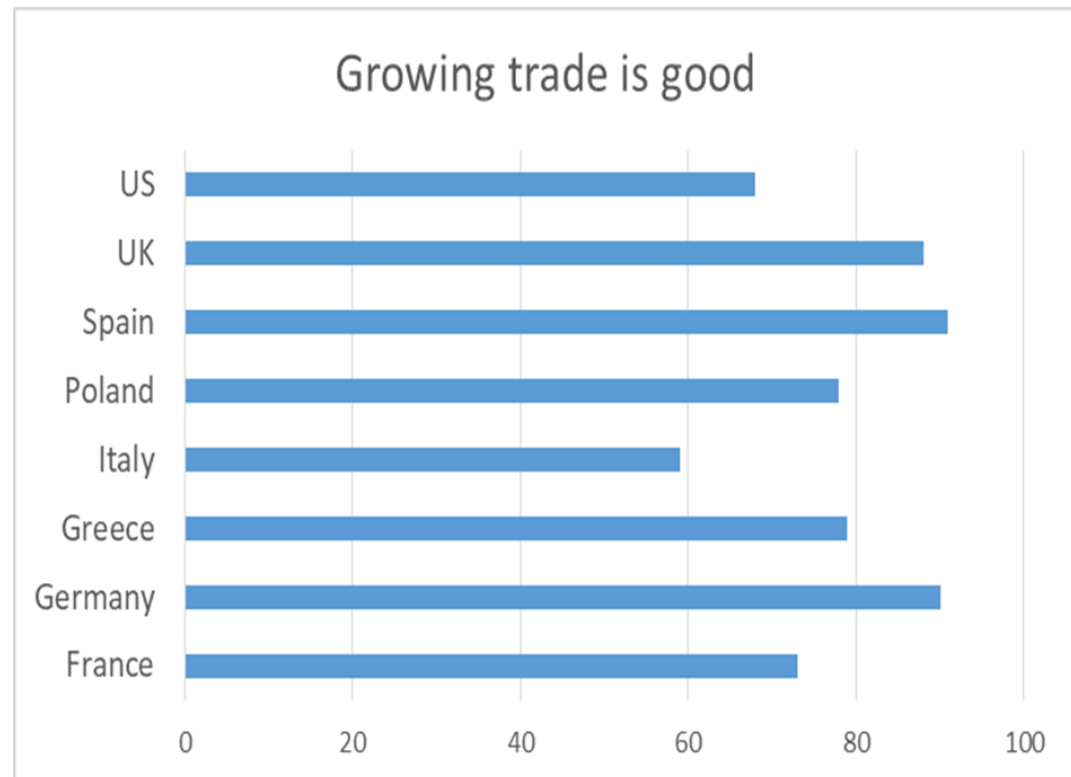
Hypothesis 1: Primacy of the Nation-State. Successful democratic government requires the consent and participation of the governed. British people identify as citizens of the United Kingdom, not citizens of the European Union. Consequently, they feel that the United Kingdom should be governed as a sovereign nation-state. EU membership erodes Britain's sovereignty. In particular, it prevents the UK from controlling immigration and forces the UK to implement laws made by the EU. According to this hypothesis, British people voted to leave the EU because they want to take back control of their borders and their country.

Hypothesis 2: Scapegoating of the EU. Many people feel left-behind by modern Britain. The left-behind are older, less educated, more socially conservative, less economically successful and think life in Britain is getting worse not better. Since the global financial crisis, the UK's median wage has declined (Costa and Machin 2017). Influenced by the anti-EU sentiments expressed by Britain's newspapers and euro-sceptic politicians, these individuals have come to blame immigration and the EU for many of their woes. According to this hypothesis, voters supported Brexit because they believe EU membership has contributed to their discontent with the status quo.



What do people think about globalisation, trade and EU?

- Pew Research Center (<http://www.pewresearch.org/>)
- Annual surveys, for a lot of countries world wide
- Survey 2014



Impact of trade on wages

	Increase	Decrease	Does not make a difference	DK/Refused
United States	17	45	32	6
France	14	47	38	1
Germany	28	31	33	8
Greece	21	49	27	4
Italy	7	52	33	7
Poland	38	21	30	11
Spain	28	33	31	8
United Kingdom	34	17	39	9

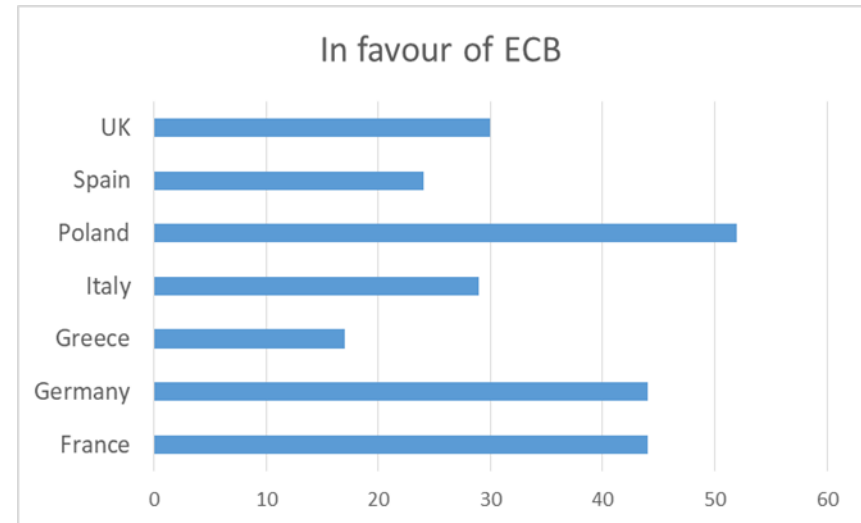
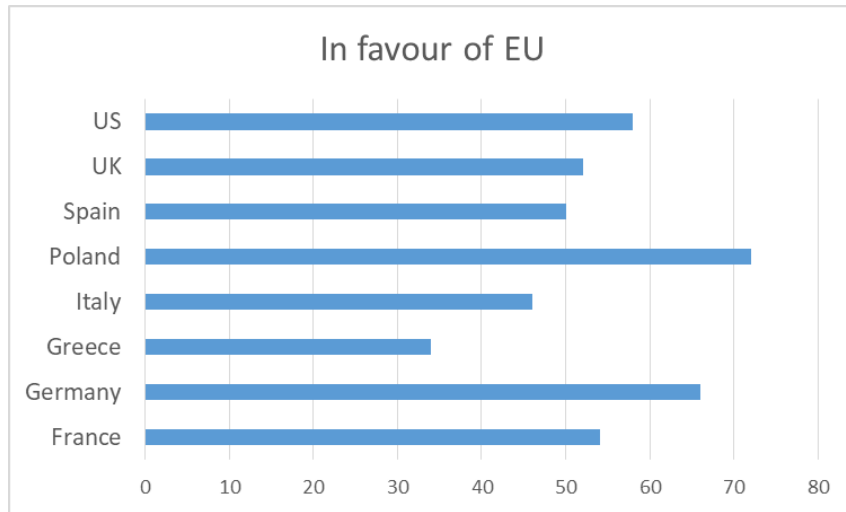
Impact trade on job creation

	Job creation	Job losses	Does not make a difference	DK/Refused
United States	20	50	25	4
France	24	49	26	0
Germany	43	28	24	5
Greece	44	39	15	2
Italy	13	59	23	4
Poland	51	22	20	8
Spain	56	20	20	4
United Kingdom	50	19	24	6

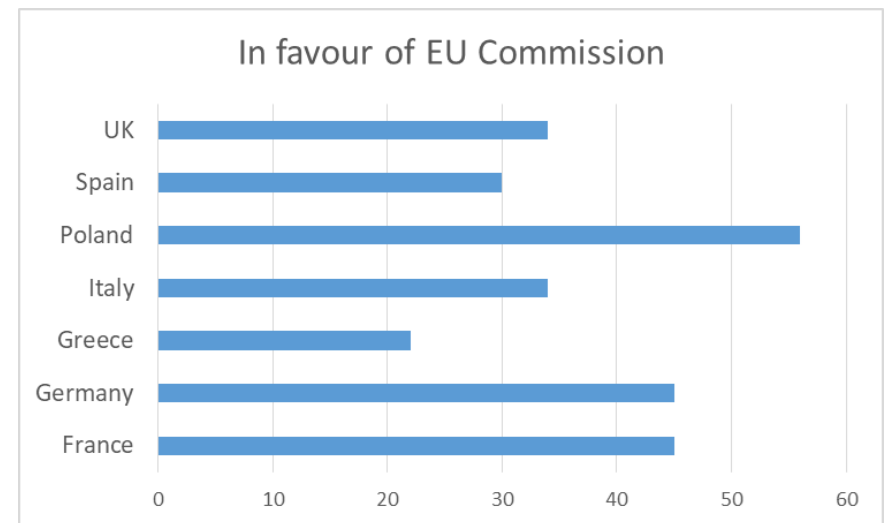
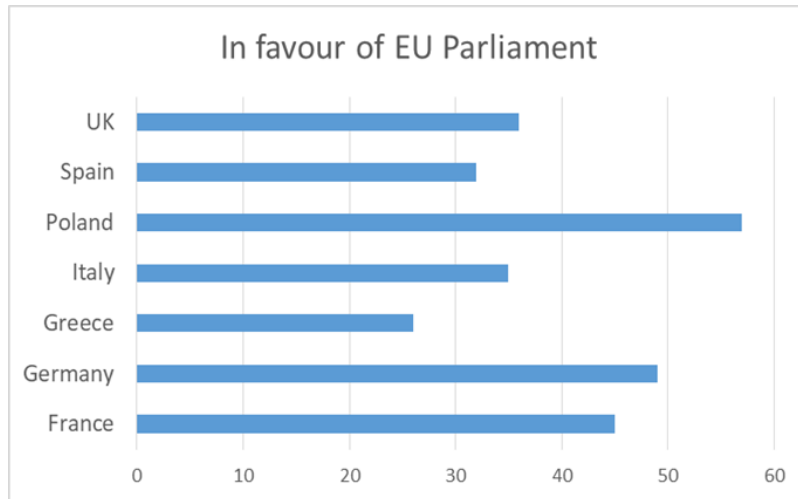
Impact trade on prices

	Increase	Decrease	Does not make a difference	DK/Refused
United States	32	35	28	5
France	36	28	37	0
Germany	34	26	33	7
Greece	39	35	21	5
Italy	47	22	25	7
Poland	26	26	35	12
Spain	35	22	36	7
United Kingdom	23	24	44	9

Opinions on EU



Opinions on EU



More powers to the EU?

	Q18 To deal with Europe's economic problems, would you favor or oppose giving more decisionmaking power to the European Union?			
	Favor	Oppose	DK/Refused	Total
France	45	55	0	100
Germany	47	50	2	100
Greece	27	71	2	100
Italy	38	50	12	100
Poland	44	41	15	100
Spain	43	53	4	100
United Kingdom	19	76	5	100

EU good for prosperity?

	Q61d Do you think the European Union d. promotes prosperity?			
	Yes	No	DK/Refused	Total
France	42	58	0	100
Germany	47	51	2	100
Greece	30	68	2	100
Italy	31	64	4	100
Poland	66	25	9	100
Spain	53	45	3	100
United Kingdom	53	41	6	100

EU democratic system?

Q62a Please tell me whether the FIRST statement or the SECOND statement comes closer to your own views – even if neither is exactly right. The first pair is: a. My voice counts in the European Union [OR] My voice does not count in the European Union					
	Statement #1	Statement #2	Neither/both equally (VOL)	DK/Refused	Total
France	44	56	0	0	100
Germany	28	71	1	0	100
Greece	16	80	4	1	100
Italy	13	81	4	2	100
Poland	29	62	5	4	100
Spain	30	68	1	0	100
United Kingdom	27	71	0	2	100

Empirical evidence

- **Winners and losers of globalisation in Europe**
- Teney et al. (2014)

- **Main idea of the paper**
- A new conflict is developing within the EU, based on people's opinion on globalisation and economic integration
- Traditionally, socio-demographic variables are used to explain how people feel about trade and globalisation
- This paper adds people's assessment of these issues as additional explanatory force

Interesting interpretation of what is happening

The ideological space in Western Europe is shifting as a consequence of globalization

In a nutshell, losers of globalization are citizens who see their life chances reduced by the effects of globalization while winners are those who consider themselves to have benefitted from globalization.

operationalization of winners and losers of globalization should encompass both objective socio-demographic characteristics and subjective measurements such as subjective deprivation, the perception of globalization as a threat and collective identities. Moreover, we show that this new globalization-driven conflict encompasses more than attitudes toward the opening or closing of borders and is underpinned, additionally, by cosmopolitan and communitarian ideological dispositions. This complexity brings the conflict closer in line with what we would expect of a new cleavage (cf. Bartolini and Mair, 1990) rather than simply a new socio-political divide.

Research questions

- Are citizens that feel deprived more against EU integration?
- Citizens that see globalisation as an opportunity are more in favour of EU integration
- Citizens that place an emphasis on (sub) national identification are less likely to support the EU, citizens that value supranational identification are more likely to support European integration
- The effects do not differ between Western and Eastern Europe
- Is the conflict between winners and losers more intense in highly globalised countries?

Data and variables (1)

- Eurobarometer survey 71.3 from 2009
- All 27 EU countries
- Subjective deprivation
- How would you judge the current financial situation of your household (1-4; from good to bad)
- Evaluation of globalisation
 - Globalisation is an opportunity for economic growth
 - Globalisation increases social inequalities
 - Globalisation represents a threat to employment and companies or it represents a good opportunity for national companies
- Question whether someone is more linked to (sub)national or international identity

Data and variables (2)

- Socio-demographic variables
- Gender, age, education, internet use, size of place of residence, immigrant origin
- Socio-economic status
- Variety of types of employment, student, unemployed
- Add variable to identify CEE countries

Dependent variable

- Meaning of the EU

Table 1. Component loadings of CatPCA

	% Respondents mentioning	Dimensions			
		1	2	3	4
Peace	25.86	-0.298	0.448	-0.048	0.360
Economic prosperity	18.13	-0.390	0.248	-0.429	0.037
Democracy	22.35	-0.395	0.415	-0.135	0.177
Social protection	11.94	-0.302	0.363	-0.499	-0.007
Freedom to travel	47.67	-0.301	0.321	0.540	-0.341
Cultural diversity	18.29	-0.280	0.487	0.313	-0.101
Stronger say in the world	22.81	-0.351	0.390	0.173	-0.071
Unemployment	13.97	0.477	0.251	-0.309	-0.072
Bureaucracy	18.82	0.391	0.331	0.328	0.525
Waste of money	19.10	0.579	0.223	0.078	0.415
Loss of cultural identity	10.37	0.441	0.233	-0.080	-0.241
More crime	14.61	0.503	0.448	-0.104	-0.246
Not enough control at external borders	13.47	0.425	0.394	-0.029	-0.346

In bold are the items that relate strongly to each other for each dimension.

Dependent variable

- **4 Dimensions**
- **Cosmopolitan:** positive aspects of EU related to democracy, peace, cultural diversity, freedom to travel, etc.
- **Utilitarian:** Positive aspects of EU; focus on material advantages
- **Libertarian:** Negative aspects of EU related to bureaucracy, waste of money, etc.
- **Communitarian:** Unemployment, crime, loss of cultural identity
- **Dep variables:** how many of these does a respondent mention out of total items mentioned

Mean values

Table 3. Means of the cosmopolitan, utilitarian, libertarian and communitarian EU meanings by support for and opposition to country's EU membership

	Cosmopolitan	Utilitarian	Libertarian	Communitarian
Overall mean	0.478	0.104	0.132	0.167
(Country's) EU membership is a good thing				
Agree	0.578	0.136	0.069	0.091
Disagree/neither nor	0.358	0.064	0.210	0.260
T-statistic	52.28***	27.95***	-48.34***	-53.02***
(Country) has benefitted from EU membership				
Agree	0.564	0.129	0.079	0.104
Disagree	0.304	0.054	0.243	0.296
T-statistic	57.02***	26.11***	-51.88***	-55.39***

*** $p < 0.001$.

Empirical findings

Table 4. The four EU-meaning dimensions (cosmopolitanism, utilitarian, libertarian, communitarianism) and attitudes toward immigrants regressed on perception of threat, identification and national level of globalization (controlling for socio-demographic characteristics and country size)

	(1) Cosmopolitan EU meaning	(2) Utilitarian EU meaning	(3) Libertarian EU meaning	(4) Communitarian EU meaning	(5) Tolerance toward immigrants
Subjective measurements					
Subjective deprivation	0.035*** (9.77)	0.004 (1.82)	-0.013*** (-4.20)	-0.026*** (-9.68)	0.228*** (7.54)
Subjective deprivation × CEEC			-0.00986* (-2.01)		
Globalization as opportunity	0.033*** (20.83)	0.015*** (15.74)	-0.024*** (-21.75)	-0.028*** (-23.57)	0.255*** (18.66)
Globalization as opportunity × CEEC					
(sub)national identification	-0.006 (-1.28)	-0.008*** (-4.79)	0.002 (0.88)	0.006** (2.93)	-0.204*** (-9.45)
(sub)national identification × CEEC	0.0218* (2.54)				
Supranational identification	0.035*** (10.56)	0.009*** (9.09)	-0.016*** (-13.94)	-0.021*** (-16.58)	0.347*** (10.71)
Supranational identification × CEEC	-0.015** (-2.88)				-0.109* (-2.08)
Country level variables					
CEEC	0.014 (0.30)	-0.006 (-0.31)	0.029 (0.97)	-0.040* (-1.99)	0.425 (1.00)
KOF Globalization index	-0.004** (-2.62)	-0.003* (-2.18)	0.003 (1.48)	0.003* (2.01)	0.059 (1.80)
KOF index ²					0.001 (0.27)
_cons	0.130*** (4.68)	0.055*** (3.63)	0.311*** (16.03)	0.410*** (23.61)	2.846*** (9.14)
ICC	0.048	0.036	0.053	0.026	0.092
R ²	0.171	0.087	0.108	0.164	0.181

Table reports multilevel regression maximum likelihood estimates. T-statistics in parentheses; R² values were calculated following the formula proposed by Snijders and Bosker (1999: 102). Due to computational issues, the table shows solely cross-level interactions that are significant.

*P < 0.05, **P < 0.01, ***P < 0.001.

Main messages (1)

- **Trade, globalisation and economic integration have developed tremendously**
- **We need to keep this in mind when analysing their importance and effects**
- **Also when we want to change, we need to know the context and developments**
- **Take care when seeing popular opinions against trade and liberalisation**
 - There is a lot of confusion
 - Debates are heated and emotional
 - All kinds of things are linked to trade and globalisation
- **Trade is good for welfare**
- **Trade and growth: positive relationship, exact size more difficult to identify**

Main messages (2)

- **Criticism and negativity has increased substantially in the last decade**
- **WTO process has seriously stagnated**
 - Big gains have been made in the past
 - Countries find it more difficult to agree on behind the border liberalisation (deep integration)
- **Rapid increase of Regional Trade Agreements**
 - Strange combination of light integration with deep integration
 - Content of agreements does affect trade
 - Maybe WTO can reinvent itself as organiser of these developments
 - Linkages between RTAs and growing governance

Main messages (3)

- **EU project is stagnating**
 - Up until creation EMU solid process
 - External causes: financial crisis, sovereign debt crisis
 - Internal causes: “old-fashioned” view on integration (fiscal union)
 - Clear dissatisfaction amongs citizens
 - Brexit latest sign
- **How to proceed?**
 - Multiple-Speed Europe?
 - New forms of integration
 - Allow for diversity?
- **Increased understanding of endogeneity of government policies**
 - Growing recognition that the opinion of citizens influences policy choices; biased against trade liberalisation

Main messages (4)

Which aspects will play key roles in these processes?

- **Position of US in global trade**
- **How will EU develop?**
- **Position of China**
- **Between and within country inequality**
- **Tradability of jobs / tasks**
 - Increased international competition, also for high-skilled jobs
- **Will the international community find (new) ways to improve the governance of international processes of trade and globalisation?**
- **The opinion of citizens will play a more important role**