

The Impact of Brexit on UK and Italian Regions

Ignazio Cabras

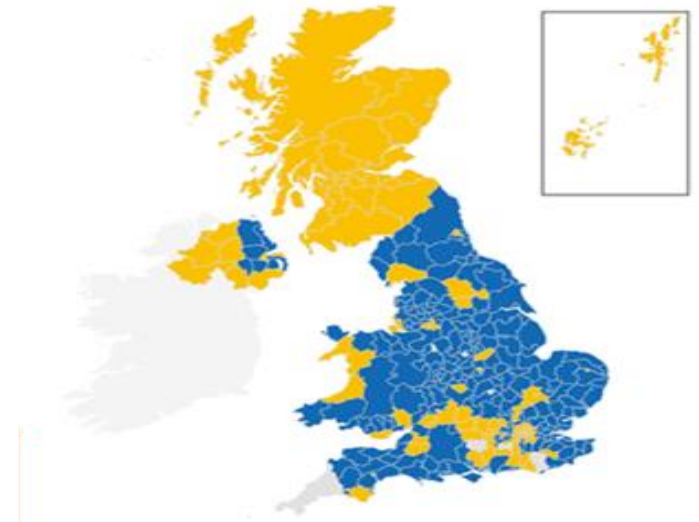
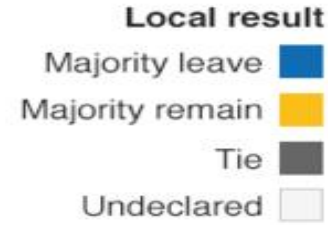
Professor in Entrepreneurship and Regional Economic Development

Newcastle Business School, Northumbria University
York Centre for Cross-disciplinary Systems Analysis
ESSCA Ecole de Management, Angers (France)

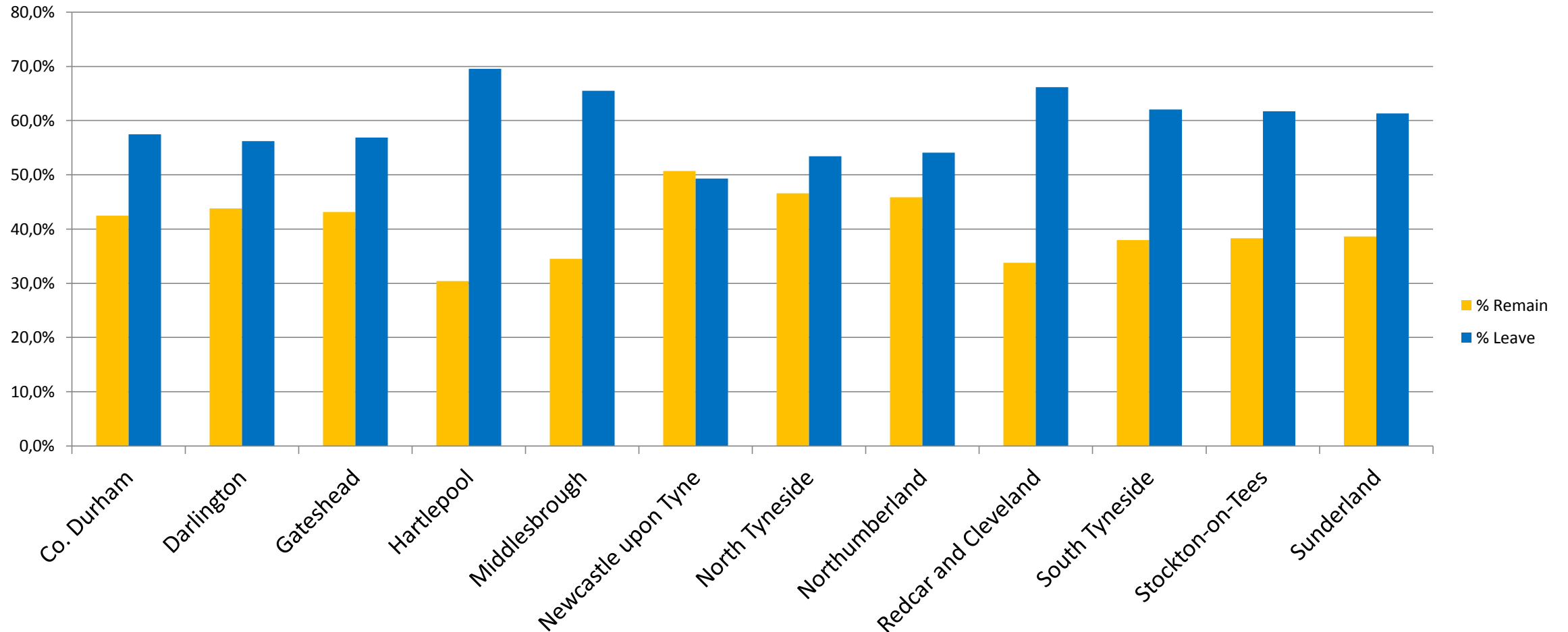


A quick recap...

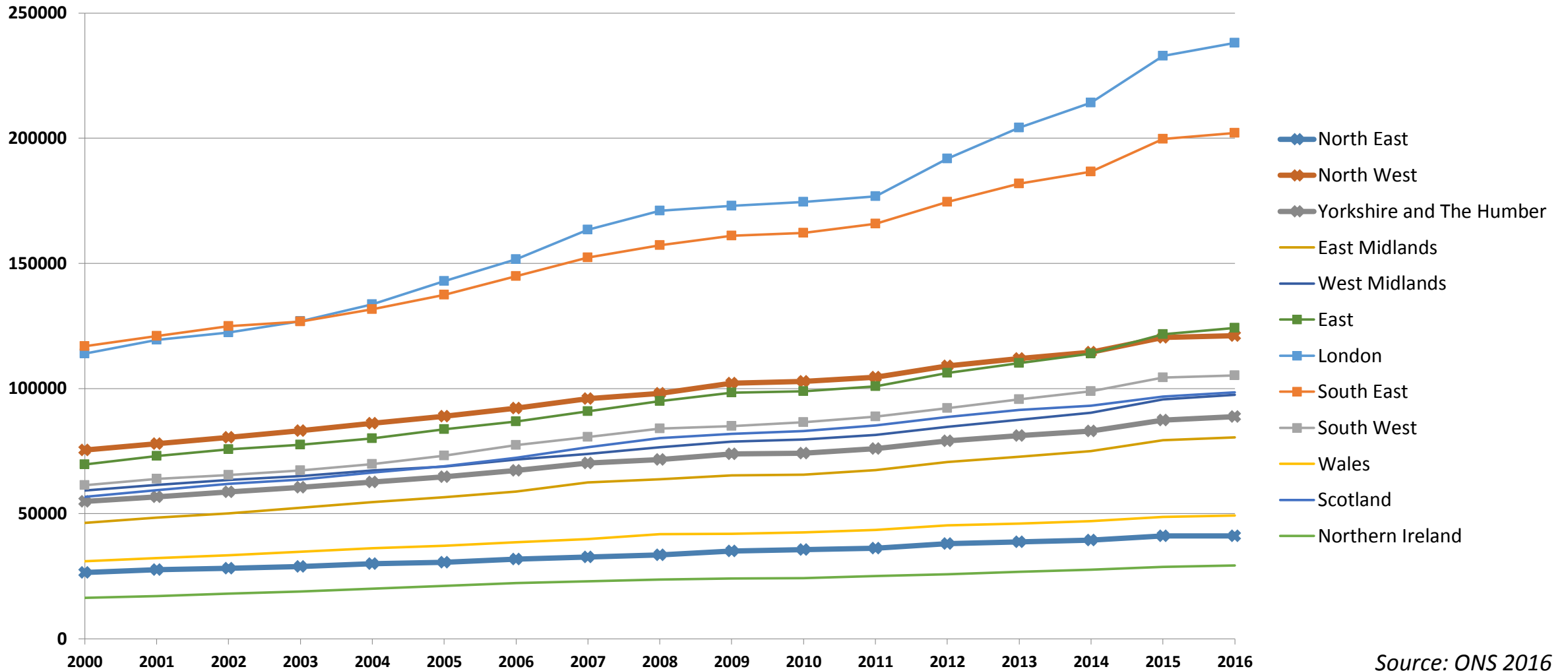
EU Referendum Results - 24th June 2016



EU Referendum Results – North East of England



Regional gross disposable household income (GDHI) at current basic prices

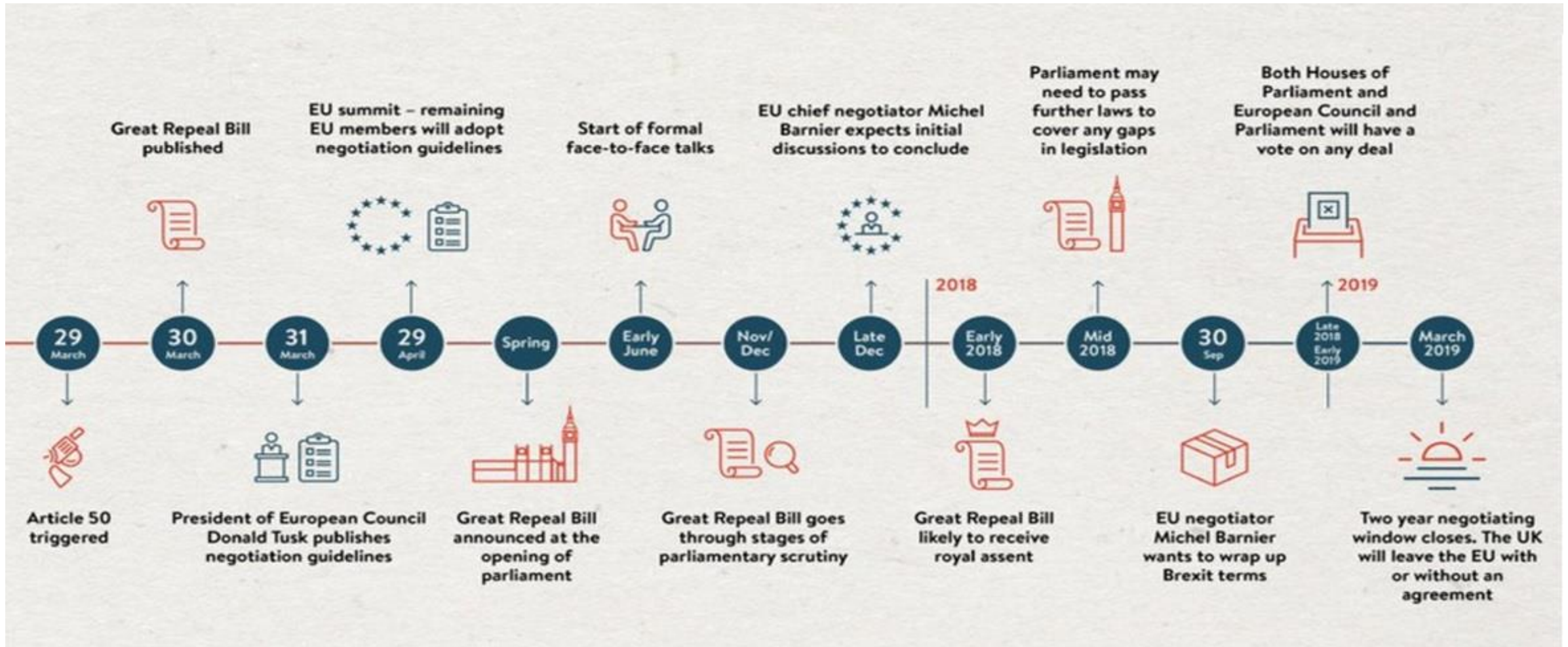


Source: ONS 2016

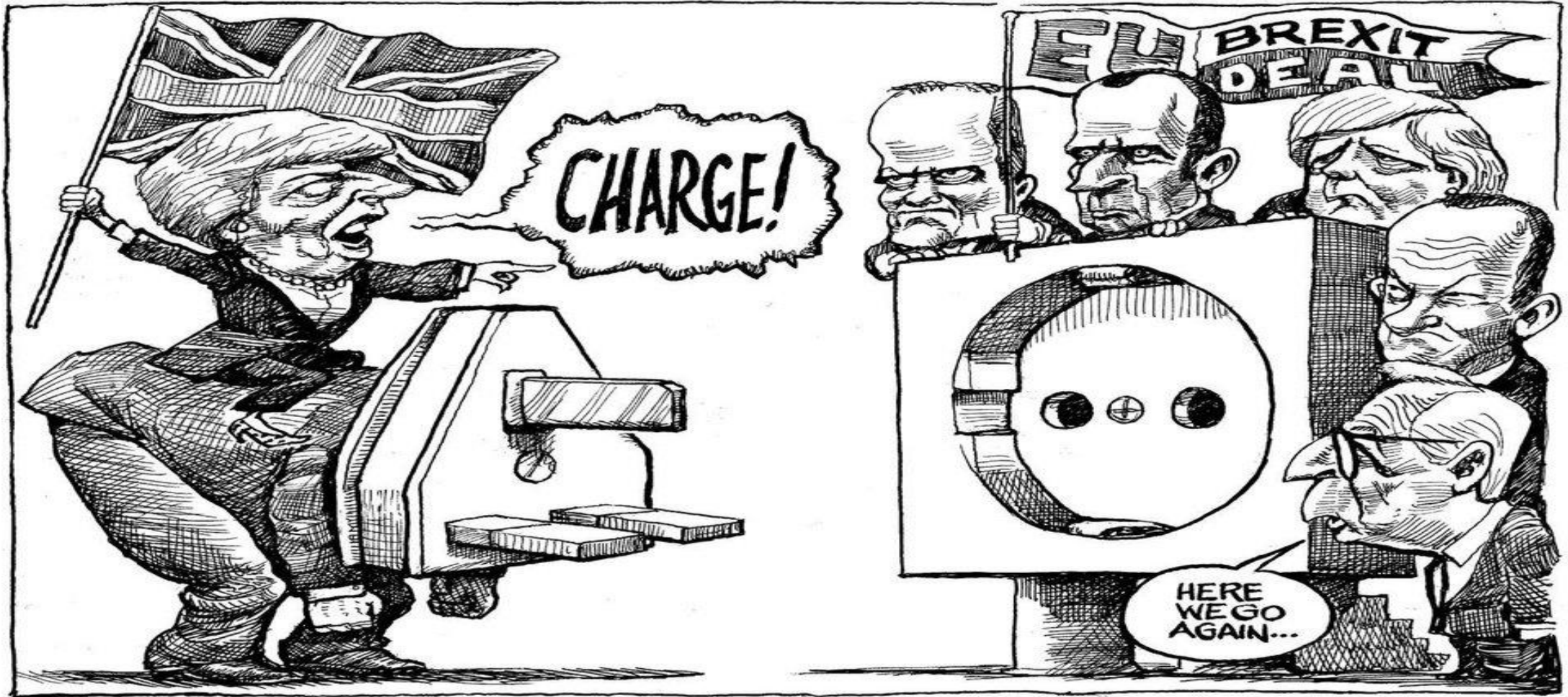
A quick recap: triggering Article 50



A quick recap: how the negotiation process should have been...



...and how the negotiations really went...





...the chronicle of the last nine months

- The UK/EU Withdrawal Agreement, negoziato dal PM May, sconfitto tre volte in Parlamento tra Gennaio e Aprile 2019
- Prima richiesta di estendere A50 fatta dal UK Govt ad EU:
 - Proroga fino al 12 Aprile (nel caso il WA venisse approvato in Parlamento);
 - O fino al 22 Maggio (giorno prima delle EU General Elections).
- Seconda richiesta di estendere A50 fatta dal UK Govt
 - Proroga fino al 30 Giugno (o prima se il WA fosse stato approvato in Parlamento);
 - EU concede proroga fino al 31 Ottobre (oggi)
- Nuovo governo guidato da Boris Johnson da Luglio 2019 (7 sconfitte su 9 in neanche quattro mesi di votazioni parlamentari...)

Redrafted WA (October 2019)



Source: Politico 2019

How customs might work

What might happen when a firm in Northern Ireland orders goods from the rest of the UK deemed "at risk" of then entering the EU?



Source: BBC



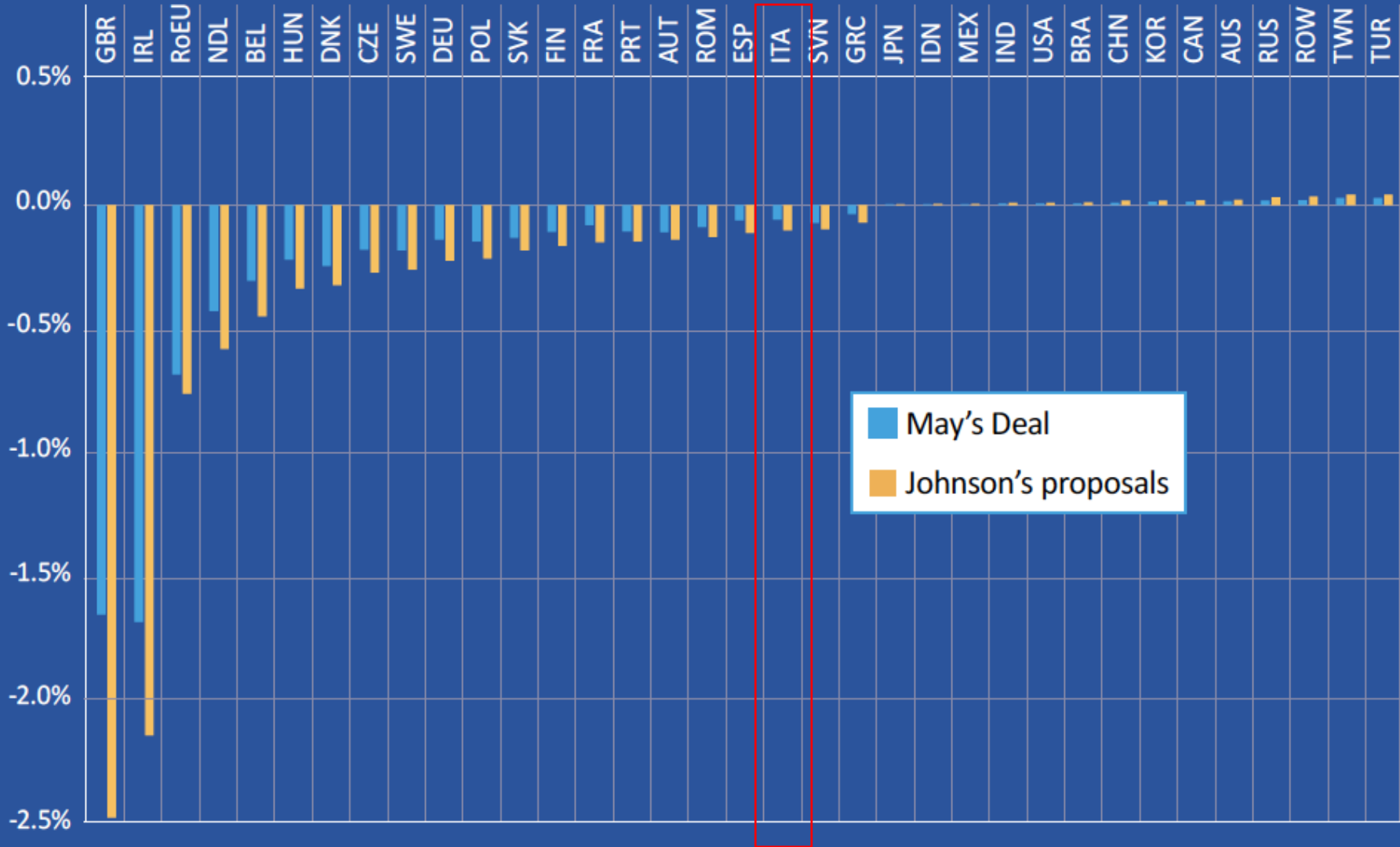
May's deal versus the Johnson proposals

May's deal

Johnson's proposals

	May's deal	Johnson's proposals
NI customs/tariffs	NI in EU customs union	All UK (inc NI) in its own customs territory
GB customs/tariffs	GB in EU 'customs territory'	UK in its own customs territory
Agriculture and manufactured goods	NI follows EU, UK maintains comparable standards	NI follows EU, UK flexibility
Labour/environmental standards	No digression/level playing field provisions	UK flexibility
Implications for third country free trade agreements	Services only	UK flexibility
Likely EU-UK free trade agreement	Full free trade agreements, customs territory, some regulatory alignment ('Turkey+')	Goods only ('Canada minus'), minimal coverage of services; significant non-tariff barriers
Irish border	No checks	Checks away from the border

Income per capita effects by country



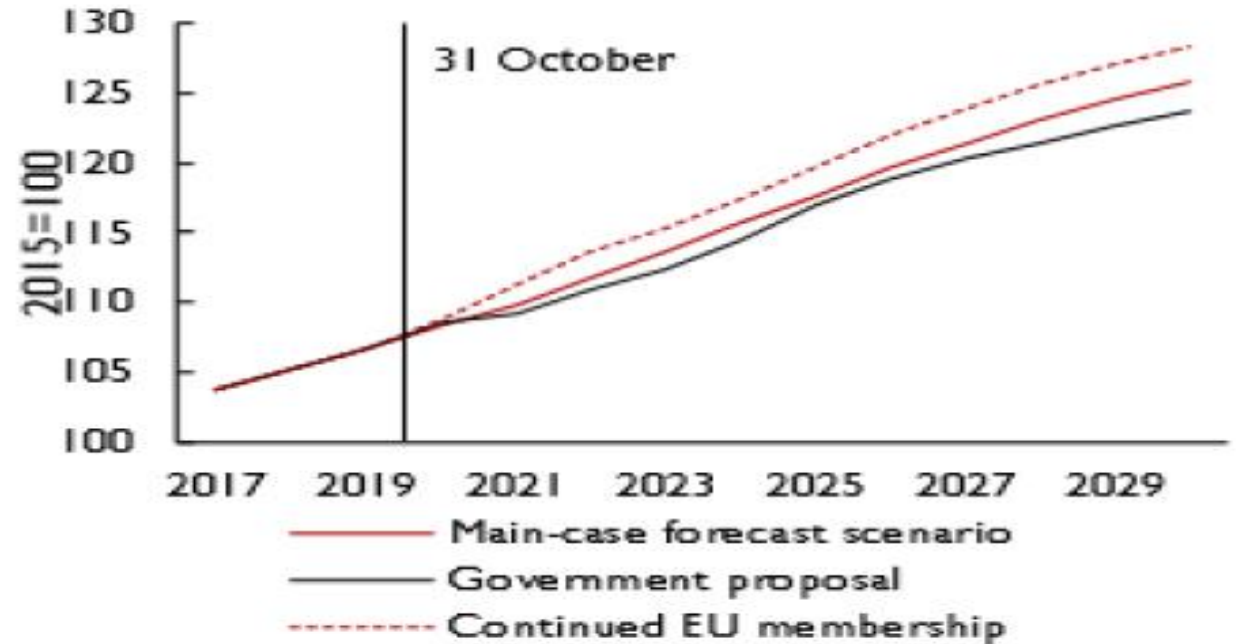
Source: CEP calculations

Reddito Pro Capite [UK]	TM Deal	BJ Deal	WTO
Percentage	-1.7%	-2.5%	-3.3%
£/year	-£500	-£800	-£1,000

Gli ultimissimi dati forniti dal National Institute for Economic and Social Research (NIESR), un centro di ricerca indipendente, indicano UK PIL in contrazione del 3.5% nel lungo periodo rispetto allo status quo che vedrebbe lo UK ancora membro dell'Unione Europea [press release 30.10.2019]

Con la proposta di accordo fatta dal PM Johnson, NIESR stima una perdita di £70bn in termini di PIL nei prossimi 10 anni.

GDP impact of Brexit



Source: NIESR, NiGEM simulation.

Summary of the forecast

Per cent

	Real GDP annual growth	CPI ^(a) Q4/Q4	ILO unemployment Q4	Bank Rate end-year	External current balance % of GDP	PSNB ^(b)
2018	1.4	2.2	4.0	0.75	-4.3	1.9
2019	1.4	1.8	4.0	0.75	-3.9	2.8
2020	1.4	2.0	4.0	0.50	-2.8	3.0

Notes: Calendar years unless otherwise stated. (a) Consumer price index. (b) Public sector net borrowing, financial years.



Decoupling the UK from the EU – regional effects

A recent study from Chen et al (2018) examined the exposure of regions in the UK and the EU to Brexit, via an analysis of the nature and scale of their trade linkages

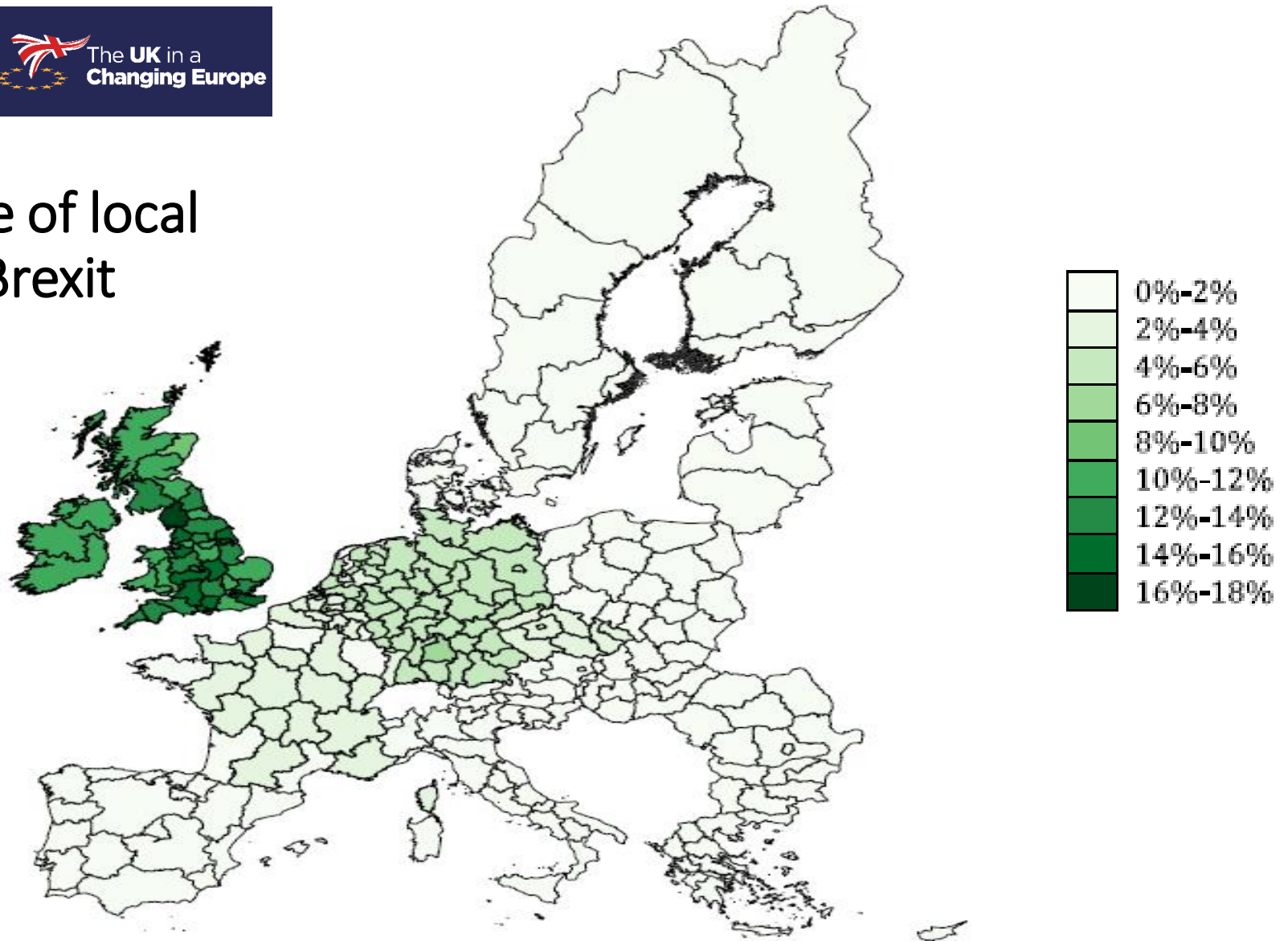
Impacts on regional GDP and Labour are examined within NUTS2 areas

Main features of the study:

- *Focus on Domestic Value Added for industry/services*
- *Use of Input-Output tables with identical number of industries across all regions*
- *All industries in all regions of all countries could sell to each other (deliveries of intermediate products), or to final users in all regions of all countries*

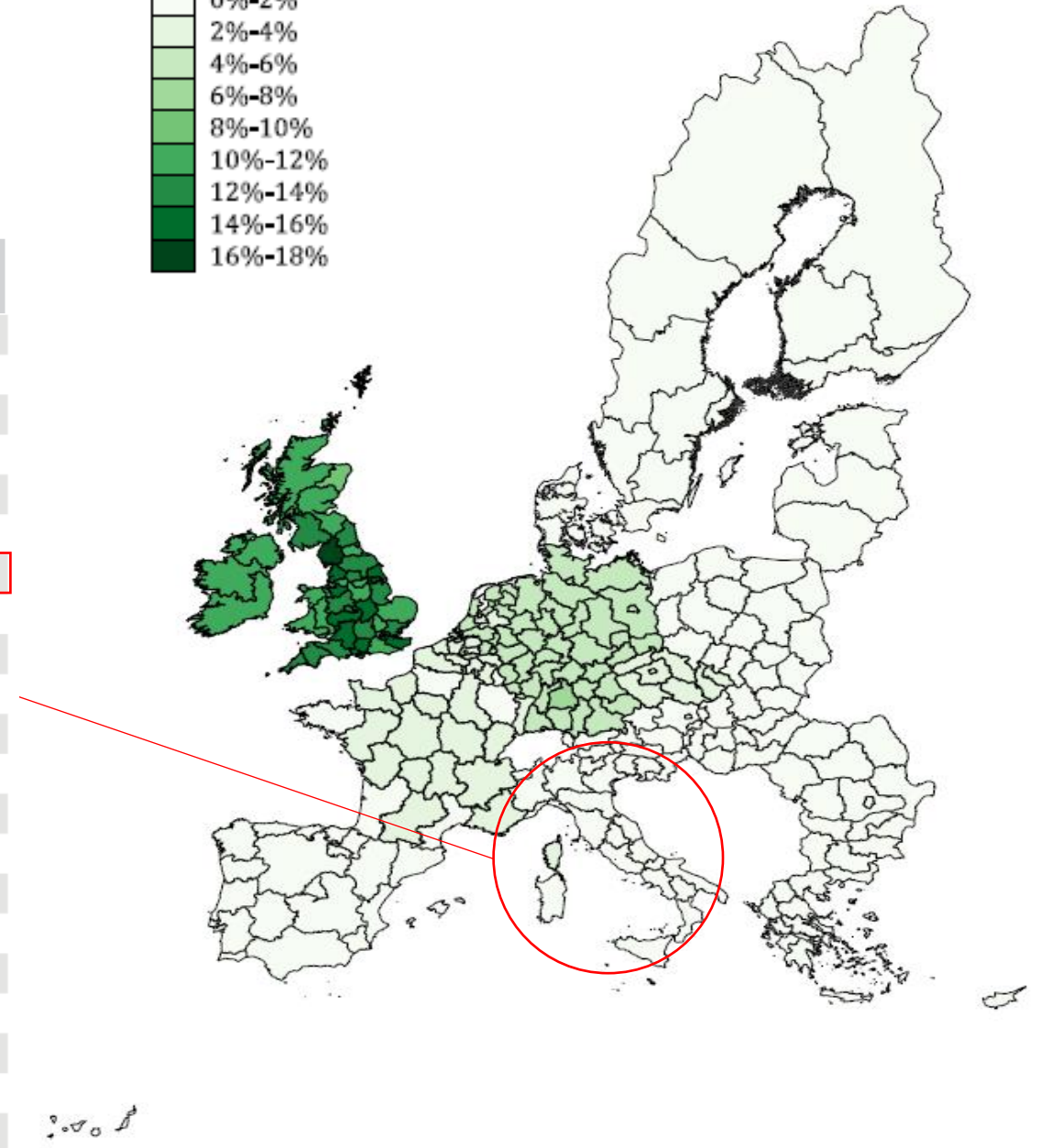
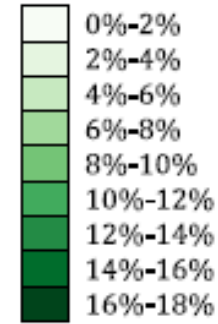


EU Regional share of local GDP exposed to Brexit

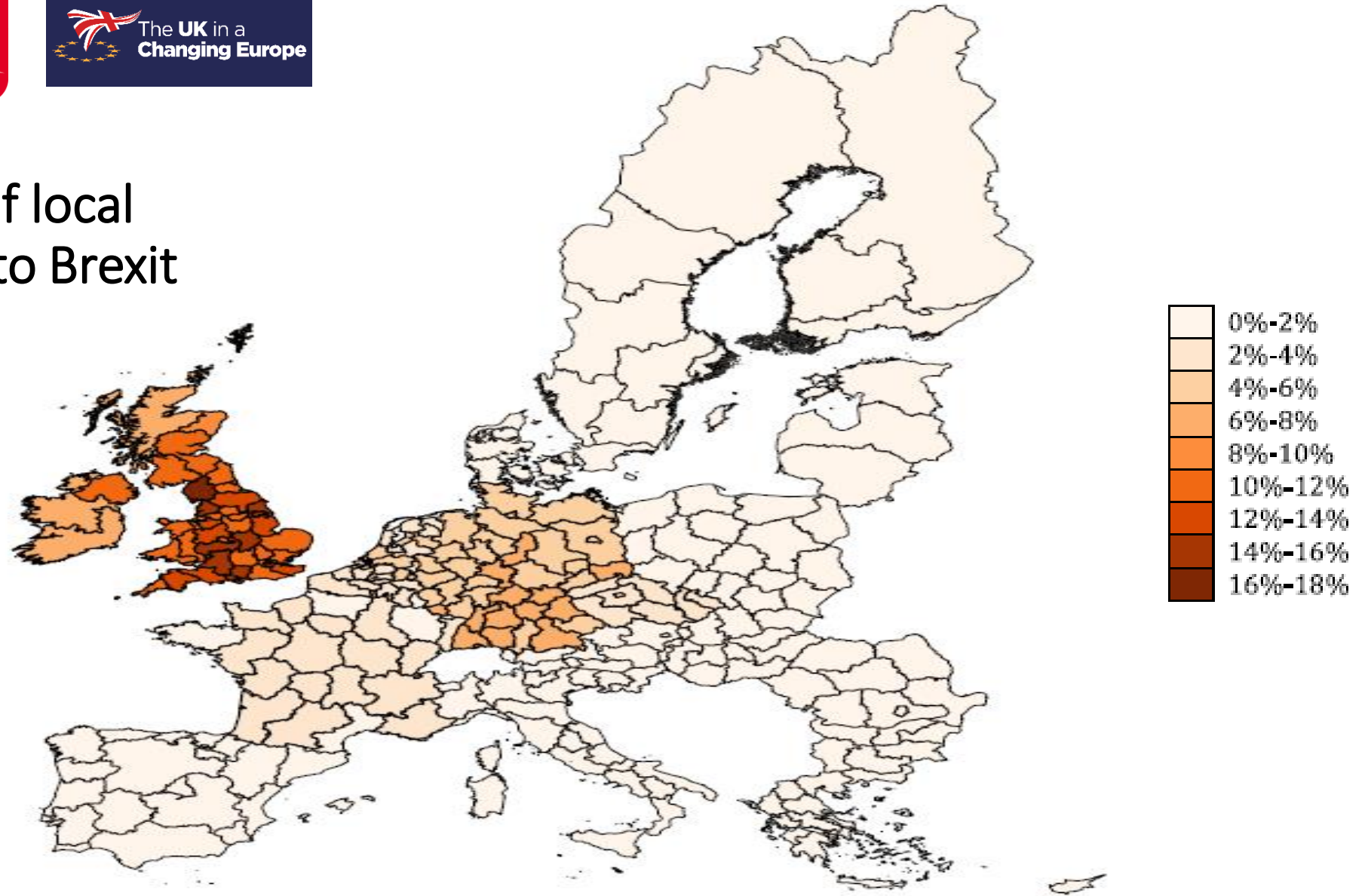


EU Regional share of local GDP exposed to Brexit: Italian Regions

Code	Region	Primary Industries DLIiX_s	Manufacturing DLIiX_s	Construction DLIiX_s	Services DLIiX_s	Aggregate Economy DLIiX_s
ITC1	Piemonte	0.98%	1.33%	0.15%	0.47%	0.63%
ITC2	Valle_dAosta_Vallee_dAoste	0.37%	0.89%	0.07%	0.39%	0.42%
ITC3	Liguria	0.65%	1.17%	0.06%	0.28%	0.41%
ITC4	Lombardia	0.86%	1.27%	0.25%	0.45%	0.62%
ITD1	Provincia_Autonoma_BolzanoBozen	0.53%	0.95%	0.04%	0.26%	0.33%
ITD2	Provincia_Autonoma_Trento	0.75%	1.25%	0.06%	0.36%	0.48%
ITD3	Veneto	0.84%	1.28%	0.13%	0.40%	0.57%
ITD4	FriuliVenezia_Giulia	0.92%	1.25%	0.05%	0.38%	0.52%
ITD5	EmiliaRomagna	0.78%	1.32%	0.11%	0.42%	0.59%
ITE1	Toscana	0.74%	1.39%	0.10%	0.39%	0.55%
ITE2	Umbria	0.78%	1.30%	0.05%	0.34%	0.49%
ITE3	Marche	0.84%	1.33%	0.05%	0.32%	0.54%
ITE4	Lazio	0.84%	1.56%	0.26%	0.42%	0.55%
ITF1	Abruzzo	0.77%	1.15%	0.06%	0.35%	0.49%
ITF2	Molise	0.70%	1.06%	0.08%	0.36%	0.47%
ITF3	Campania	0.82%	1.32%	0.16%	0.35%	0.48%
ITF4	Puglia	0.65%	1.32%	0.14%	0.34%	0.48%
ITF5	Basilicata	0.78%	1.10%	0.08%	0.35%	0.45%
ITF6	Calabria	0.72%	1.43%	0.05%	0.39%	0.49%
ITG1	Sicilia	0.61%	1.36%	0.11%	0.35%	0.49%
ITG2	Sardegna	0.69%	1.38%	0.08%	0.40%	0.53%

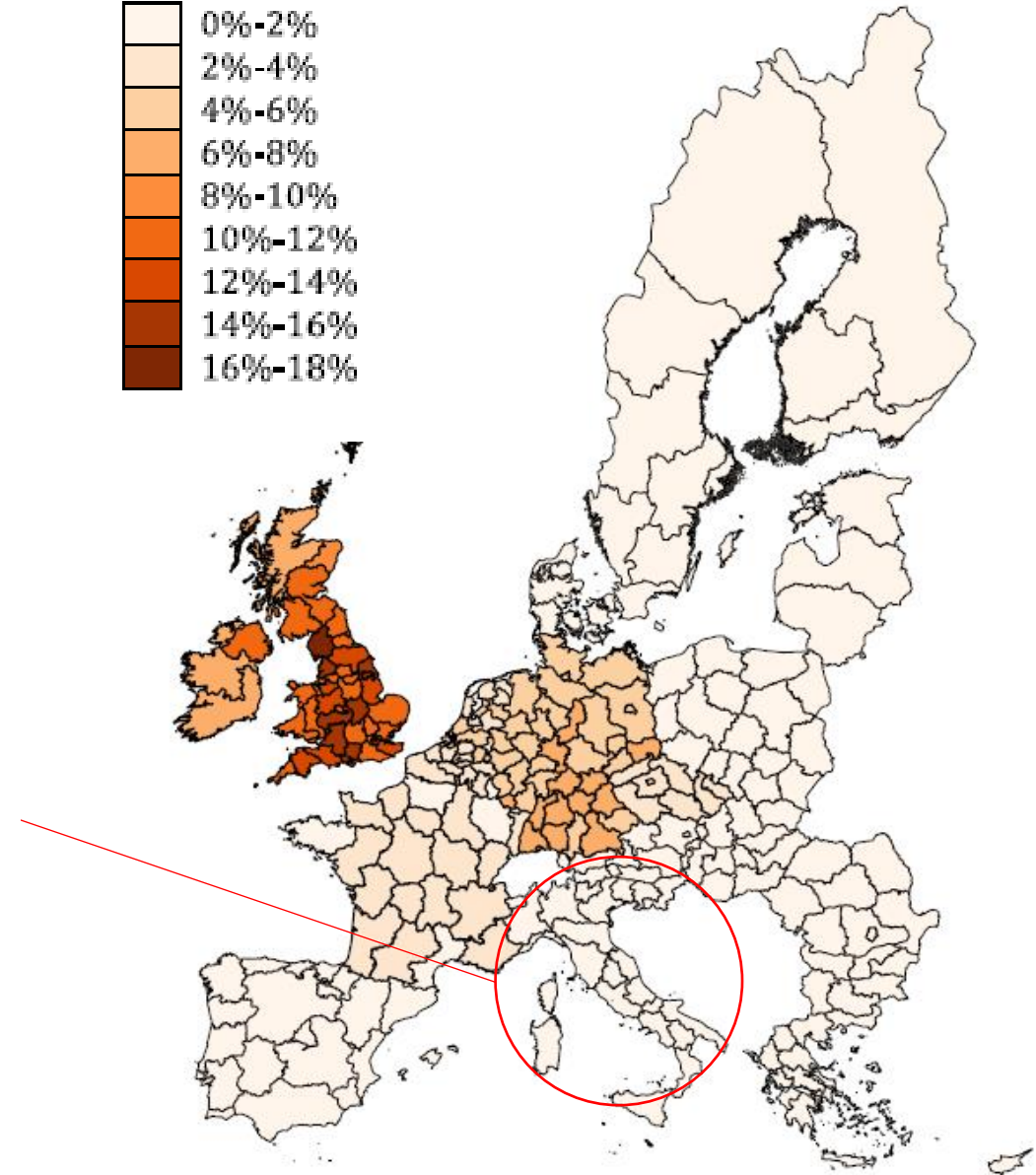
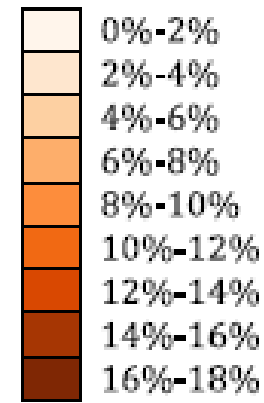


Regional share of local labour exposed to Brexit



EU Regional share of local labour exposed to Brexit: Italian Regions

Code	Region	Primary Industries DLIIX_s	Manufacturing DLIIX_s	Construction DLIIX_s	Services DLIIX_s	Aggregate Economy DLIIX_s
ITD4	FriuliVenezia_Giulia	0.99%	1.26%	0.05%	0.31%	0.5%
ITD5	EmiliaRomagna	0.78%	1.34%	0.11%	0.34%	0.6%
ITE1	Toscana	0.74%	1.41%	0.10%	0.30%	0.5%
ITE2	Umbria	0.75%	1.32%	0.05%	0.26%	0.5%
ITE3	Marche	0.84%	1.33%	0.05%	0.23%	0.6%
ITE4	Lazio	0.86%	1.56%	0.26%	0.33%	0.5%
ITF1	Abruzzo	0.76%	1.17%	0.06%	0.24%	0.5%
ITF2	Molise	0.68%	1.09%	0.08%	0.26%	0.4%
ITF3	Campania	0.85%	1.34%	0.16%	0.24%	0.4%
ITF4	Puglia	0.65%	1.34%	0.14%	0.22%	0.4%
ITF5	Basilicata	0.79%	1.14%	0.08%	0.24%	0.4%
ITF6	Calabria	0.78%	1.48%	0.05%	0.30%	0.4%
ITG1	Sicilia	0.68%	1.40%	0.11%	0.24%	0.4%
ITG2	Sardegna	0.72%	1.41%	0.08%	0.32%	0.5%
ITC1	Piemonte	0.92%	1.34%	0.15%	0.37%	0.6%
ITC2	Valle_dAosta_Vallee_dAoste	0.50%	0.92%	0.07%	0.25%	0.4%
ITC3	Liguria	0.60%	1.17%	0.06%	0.21%	0.4%
ITC4	Lombardia	0.83%	1.28%	0.25%	0.37%	0.6%
ITD1	Provincia_Autonoma_BolzanoBozen	0.49%	0.99%	0.04%	0.18%	0.3%
ITD2	Provincia_Autonoma_Trento	0.73%	1.28%	0.06%	0.28%	0.4%
ITD3	Veneto	0.84%	1.29%	0.13%	0.30%	0.6%





Italy-UK: Import/Export per product

Export to UK		€ Mln	% on tot UK Imp	Import from UK		€ Mln	% on tot UK Exp
<i>Automotive</i>		1,207	6.2	<i>Automotive</i>		1,389	15.1
<i>Textile</i>		1,092	5.6	<i>Pharmaceutical</i>		848	9.2
<i>Automotive - components and accessories</i>		698	5.0	<i>Chemicals and synthetic material</i>		440	4.8
<i>Machinery e.g. productive processes</i>		945	4.9	<i>Machinery e.g. productive processes</i>		406	4.4
<i>Pharmaceutical</i>		905	4.6	<i>Raw metals</i>		311	3.4
<i>Beverages</i>		845	4.3	<i>General components</i>		307	3.3

ATECO Codes based on NACE 2

Source: ICE/ISTAT, Jan 2019



Regional trends: PMIs

Micro imprese (<10 employees): N= 4.13 million

[95,4% of total enterprises]

7.5 million employed [46,0% of total private]

Piccole imprese (<50 employees): N= 4.31 million

[99,4% of total enterprises]

10.6 million employed [65,5% of total private]

UK Export; 2018 Total - Italian PMIs [*Piccole Medie Imprese*]:

€7.87 bn [+3.2% between July 2017 - July 2018]

Main sectors by UK export:

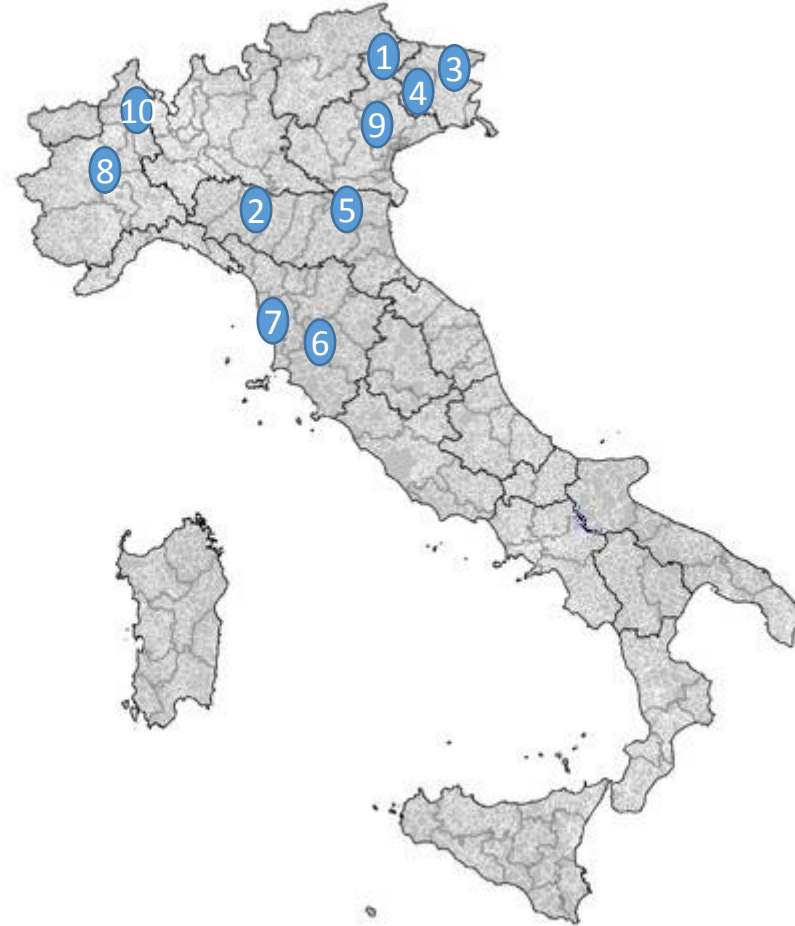
- Food&Beverages sector: €2,034 million (25.8%),
- Textile/Clothing: € 1,577 million (20.0%)
- Leather: €1,131 million (14.4%),
- Metals ex. Machineries: € 950 million (12,1%),
- Furniture: €890 million (11,3%),



Regional trends: PMIs UK export

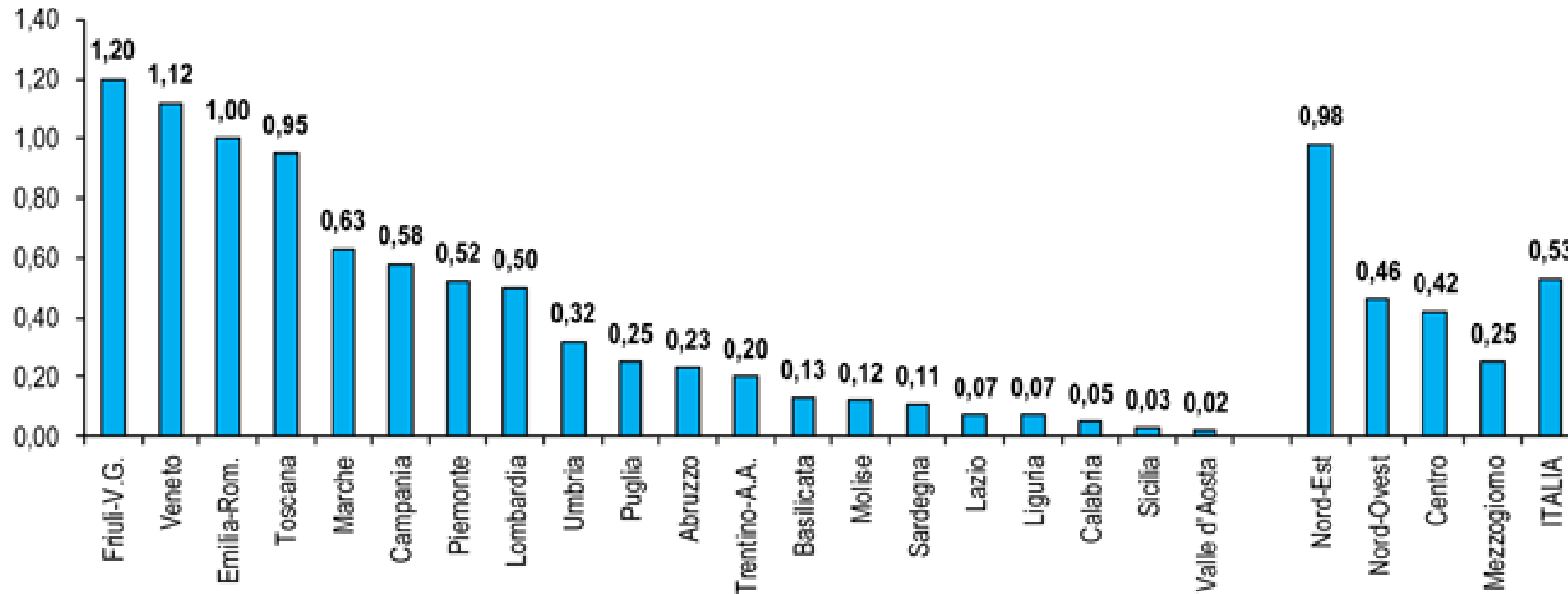
Most exposed provinces

- 1) **Belluno**: 3.51% (spec. Glasses/Optical Lenses)
- 2) **Piacenza**: 2.95% (spec. Clothing/Leather; Manufacturing)
- 3) **Pordenone**: 2.56% (spec. Furniture)
- 4) **Gorizia**: 2.38% (spec. Furniture),
- 5) **Reggio Emilia**: 2.31% (spec. Agrifood,Clothing)
- 6) **Arezzo**: 2.30% (spec. Clothing/Leather; Manufacturing)
- 7) **Prato**: 2.18% (spec. Textile, Clothing)
- 8) **Vercelli**: 2.10% (spec. Agrifood; Clothing)
- 9) **Treviso**: 1.96% (spec. Leather; Furniture; Metal)
- 10) **Biella**: 1.90% (spec. Clothing/Leather; Manufacturing)



Regional trends and PMIs: Exposition to Brexit

Grado di esposizione verso il Regno Unito dei settori di MPI per regione
Export anno 2017 su val. agg. anno 2015. Totale comprensivo di n.c.



* Divisioni Ateco 2007: 10, 13, 14, 15, 16, 18, 25, 31 e 32 per cui % addetti di imprese <50 addetti su totale addetti di divisione = 60% nel 2015 in Italia

Elaborazione Ufficio Studi Confartigianato su dati Istat



Italian Regions: Exposition to Brexit

- Le regioni del Nord sono piu' esposte ad eventuali effetti della Brexit rispetto alle regioni del Centro e Sud Italia
 - PMIs del Nord particolarmente esposte e a rischio
 - Le province del Nord piu' specializzate sono piu' esposte in rapporto al volume di relazioni e scambi commerciali con UK
 - Alcuni settori piu' esposti di altri nelle province del Centro e del Sud Italia
- Estimated costs or Italian economy: **€23bn until 2030** (*wcs – Source: Confindustria*)
 - Import/export exchange heavily affected [in the order of €2-2.5 bn less year]
 - Automotive [and related], Textile/Clothing and Food&Beverages likely to be the most affected sectors



Conclusions – Brexit and the UK

- Il livello di incertezza creato dalla Brexit ha un effetto negativo sulle economie locali del Regno Unito
 - Inghilterra del Nord piu' esposta ai rischi della Brexit di altre regioni del Regno
- Qualunque risultato porti la Brexit, che sia BJ's Deal or No Deal, si dovrebbe creare una situazione di instabilita economica almeno per il breve/medio periodo
 - Cracks in UK/EU supply chains likely to heavily affect regional and local economies; system reconfiguration will take years
- L'incertezza derivante dal processo e le possibili alternative in termini di risultati stanno gia' producendo effetti per quanto riguarda investimenti e programmazione futura in molti comparti industriali, settori d'impresa e regioni.
 - Replacing EU funds going to be a significant issue for Northern English regions



Conclusions – Brexit and Italy

- L'Italia rimane esposta agli effetti della Brexit, per quanto questi effetti non siano così drammatici come per altre nazioni nella EU
 - Effetti ridotti rispetto ad altri stati membri come Irlanda, Germania, Olanda e Francia.
- I comparti industriali più a rischio rimangono quelli con più alto livello di specializzazione (al Nord), così come quelli più esposti verso export (e.g. agroalimentare e tessile particolarmente al Sud)
 - Perdite stimate da Confindustria riflettono prevalentemente i valori della bilancia commerciale
- Anche in Italia, come per altri stati membri, l'incertezza derivante dal processo Brexit e i relativi risultati ha effetti su investimenti e occupazione, con qualche eccezione [e.g. i flussi migratori dalle regioni Italiane verso il Regno Unito continuano].

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ignazio.cabras@northumbria.ac.uk

[@DrCabras](https://twitter.com/DrCabras)

