

Brexit through the Lens of New Quantitative Trade Theory

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In summer 2016, the UK voted to leave the European Union...

- fundamental political and economic debate in Europe
- Brexit was officially initiated on March 29, 2017: Two years for negotiations, but also for uncertainties
- These uncertainties leave room for political and academic discussions

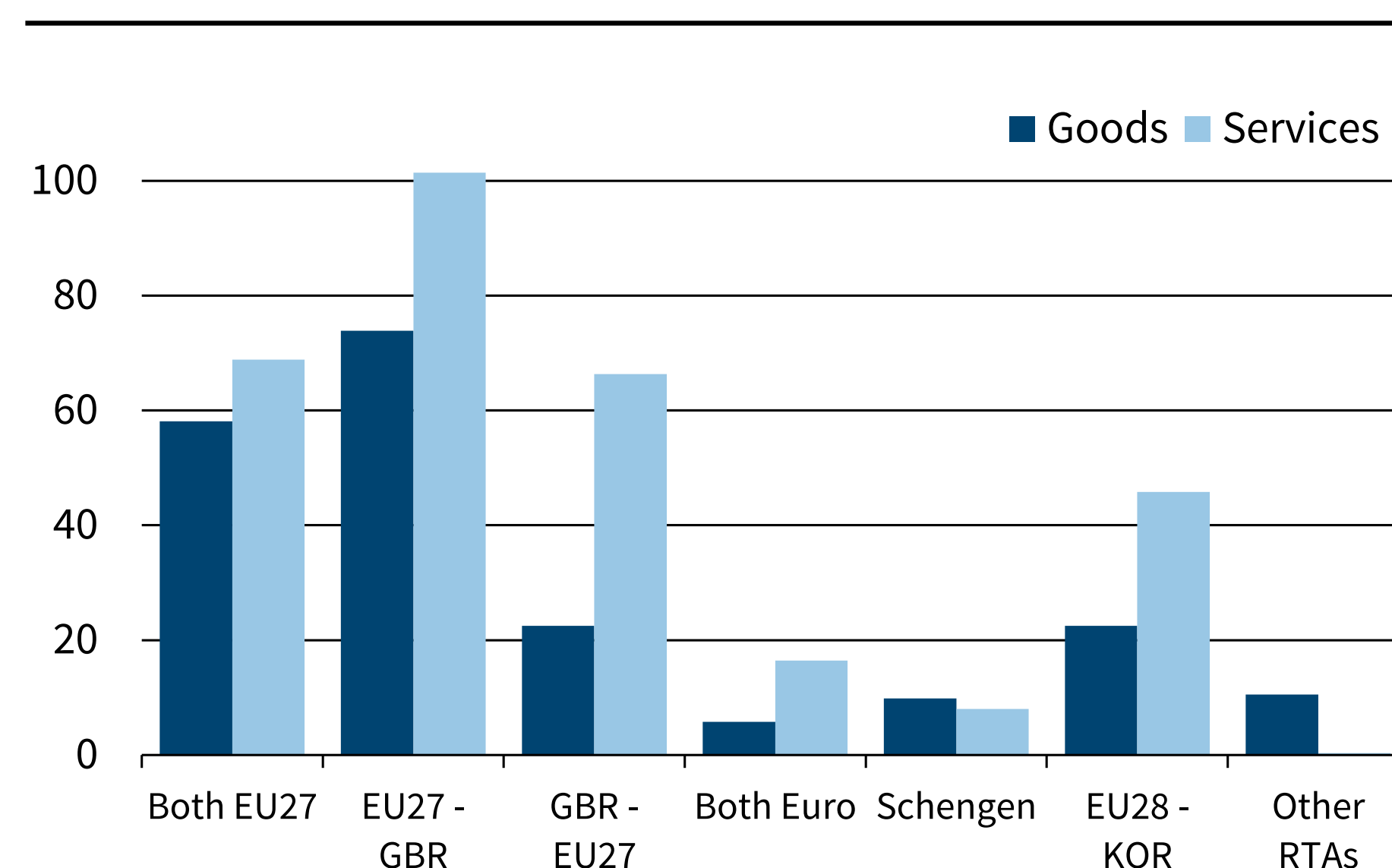
Research Question and underlying Method

What are the possible effects of Brexit on trade, sectoral outcomes, and welfare?

- 1 Ex-Post estimation of trade cost changes and trade elasticity with **Structural Gravity Model of Trade**
- 2 Bootstrap standard errors for all endogenous outcome variables
- 3 Ex-ante simulation of CGE Trade Model in a **new quantitative trade** setting to quantify potential losses and benefits

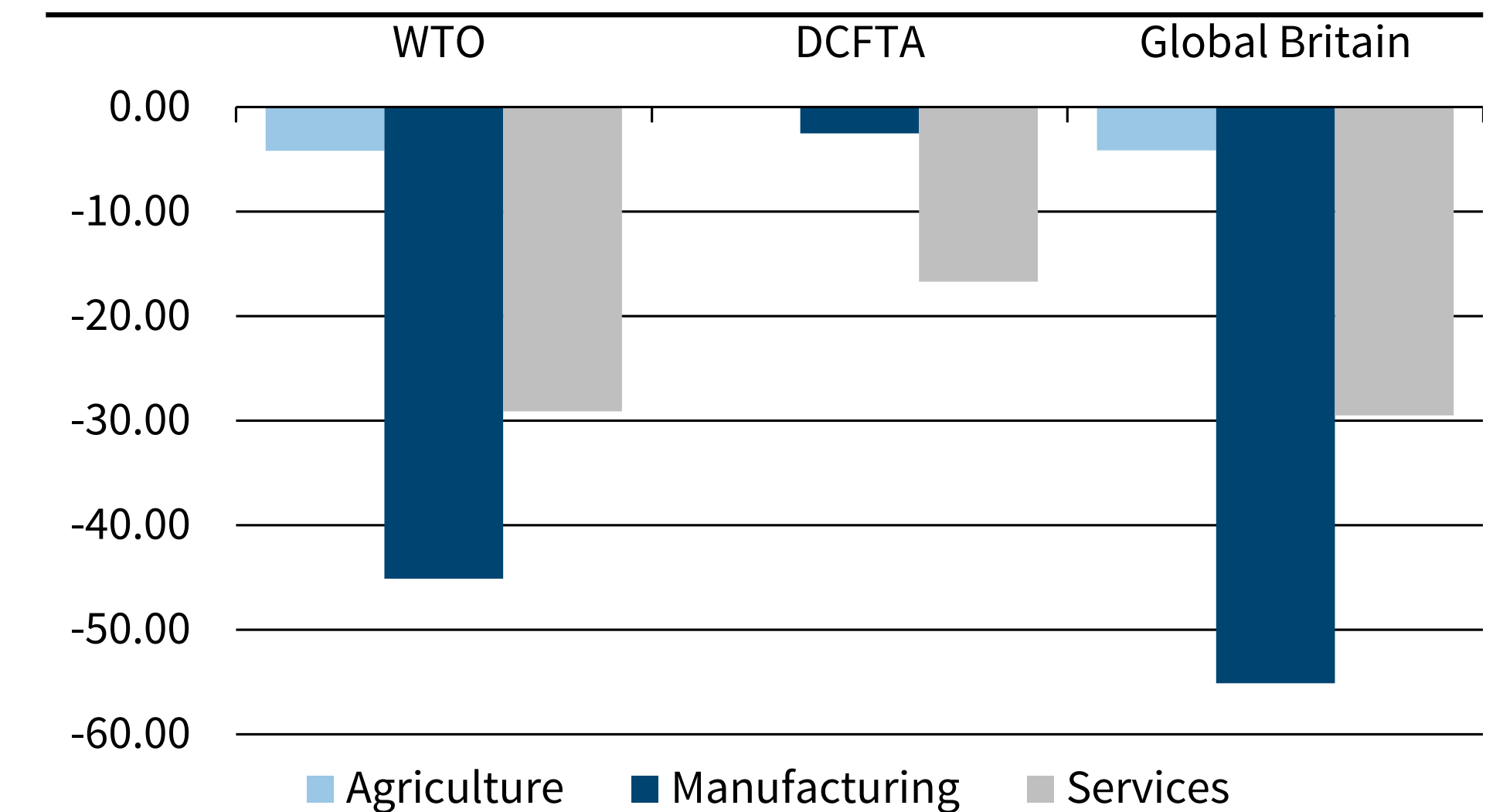
Ex-post Structural Gravity Results

Change of non-tariff trade costs, in %



Change of EU27 Exports

Change of EU27 sectoral exports, in bn USD

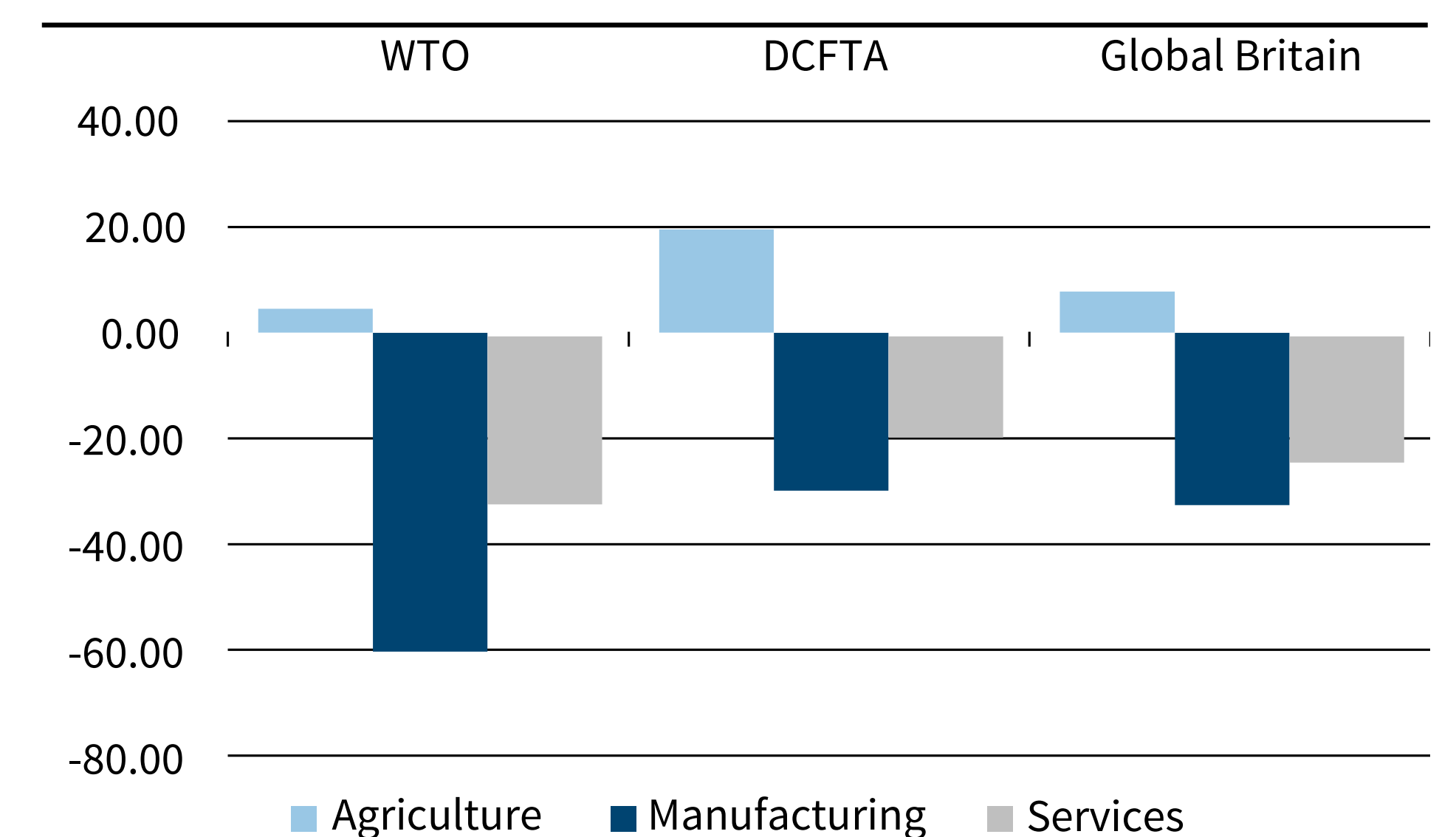


Ex ante simulation of counterfactual Brexit scenarios with ifo trade model

- reversed trade cost changes of EU integration are used as trade barriers
- Static multi-country, multi-industry Ricardian trade model
- intra- and international input-output linkages across 44 countries, for 50 goods and services (WIOD)
- more than 90% of global value added
- trade flows interrupted by tariffs and NTBs

Change of UK Exports

Change of UK sectoral exports, in bn USD



Different Brexit Scenarios

WTO Scenario	DCFTA Scenario	Global Britain Scenario
<ul style="list-style-type: none"> • UK leaves EU single market and customs union • UK loses all EU PTAs 	<ul style="list-style-type: none"> • WTO Scenario • DCFTA between EU27 and UK • UK loses all EU PTAs 	<ul style="list-style-type: none"> • WTO Scenario • UK has FTAs with Nafta, Japan, China, Korea, USA, CW

Ex-post Estimation of Trade Cost Changes and Trade Cost Elasticity

- Estimation of ex-post effects of EU-integration (NTBs and trade elasticity)
- Sectoral Poisson panel regressions with pair, exporter-time, and importer-time fixed effects
- identification relies on time variation and within country variation

Change of Real Income, EU-countries, in %

