

RIETI-CEPR Symposium

Brexit:

On the future of the UK and the global economy

Handout



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November 7, 2016

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Wisdom between being in and not being in?

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To be in or not to be in: New and old issue

- “UK is not really sure if it is better to be part of Europe or to be separate from Europe.”
- “. . . better off economically, but may not be clearly better off politically if “to be part of Europe” supports the Franco-German architectural design for the Continent in the 21th century.”
- “. . . This dilemma between support for the economic goals and resistance to the political ambitions of France and Germany came out clearly in the UK’s internal conflict over joining the European Monetary Union.”

(source) Larry Neal, 2007. *The Economics of Europe and the European Union*, 255-290.

Not fully but significantly integrated in EU

Membership of EC

- 1958 EEC (6 countries, except the UK)
- 1961 EFTA
- 1973 UK joined EEC

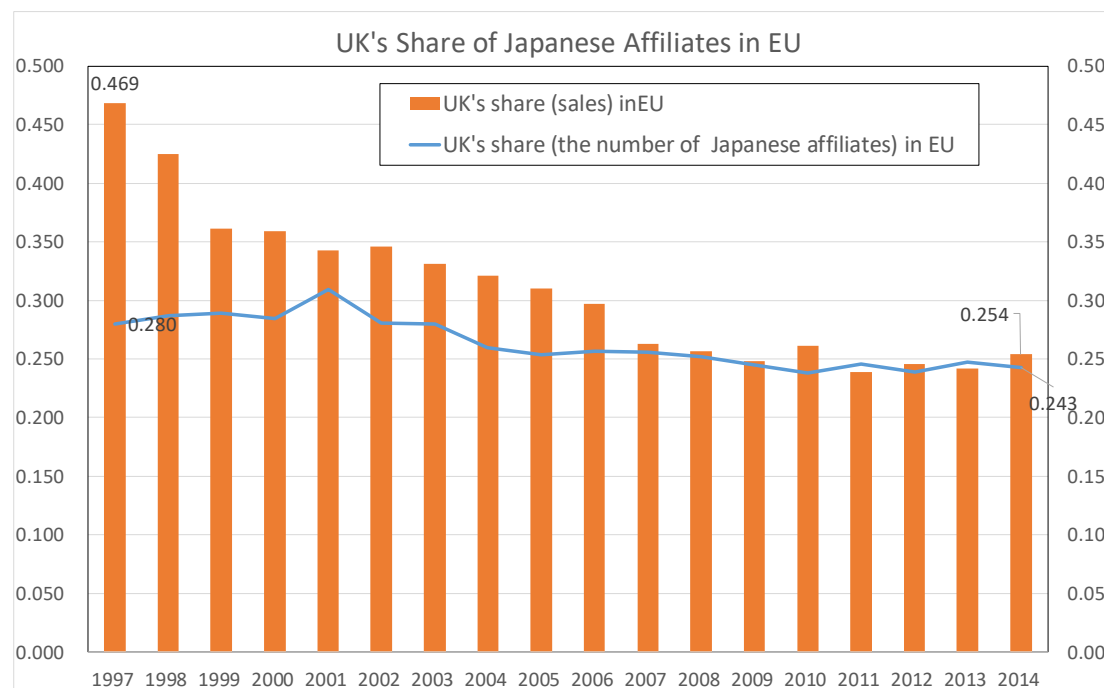
Sterling £ vs. EMS and Euro

- EMS (1979-1999) to Euro
 - UK (1990.10-1992.09)
 - UK flexible exchange rate policy (1992.10-

	UK	Franco-German
EU	○	○
Schengen	×	○
Euro	×	○

Example 1: Declining UK's share, but still 1/4 for Japanese firms' sales in EU

	1997	2014
Sales volume	46.9%	25.4%
# of firms	28.0%	24.3%



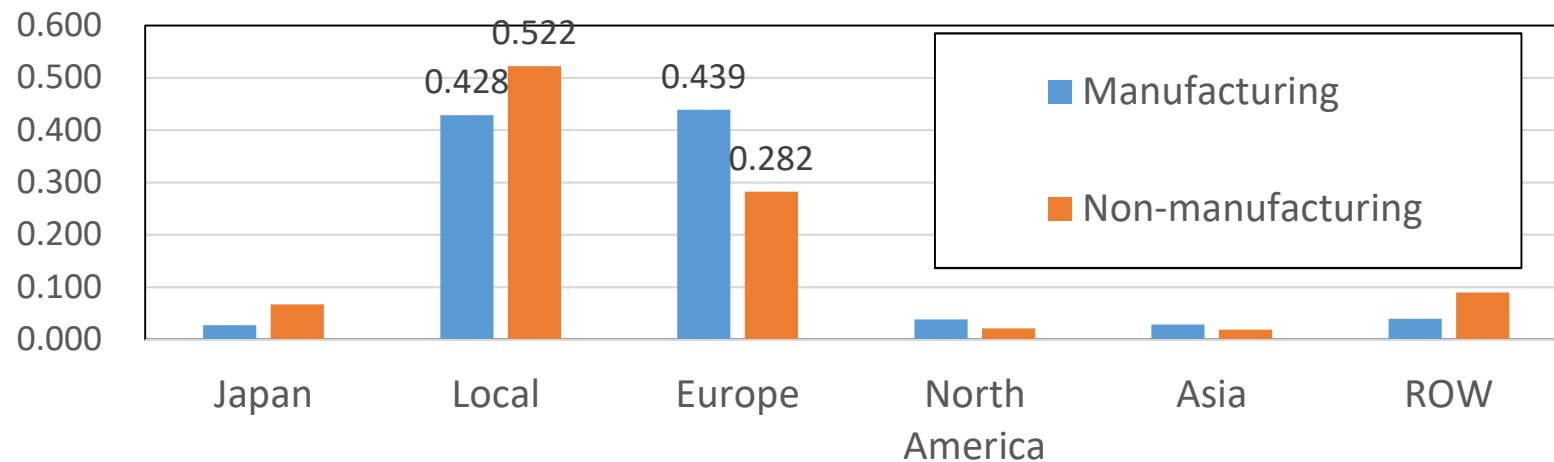
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(Note) Author's calculation from METI's Basic Survey of the Activities of Japanese Foreign Affiliates

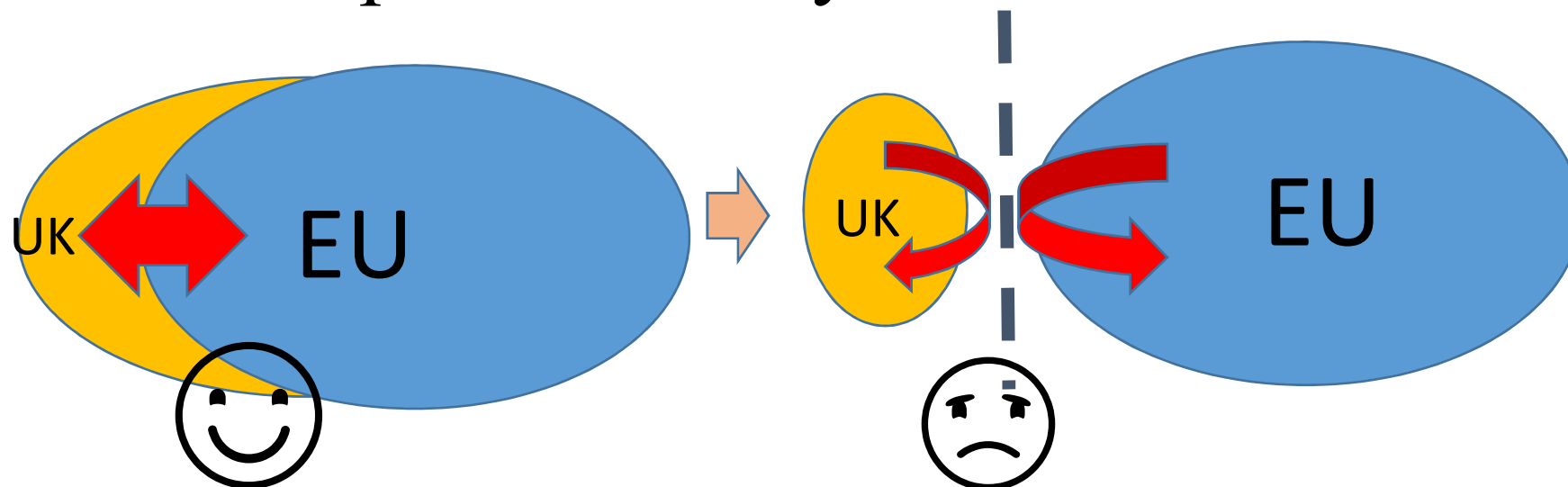
Example 2: Factory EU for Japanese affiliates

	Local sales (%)	Regional sales	To Japan
Manufacturing in EU	42.8	43.9	2.7
Non-m.	52.2	28.2	6.7
Manufacturing in Asia	54.3	23.8	15.5
Non-m.	56.3	23.6	13.5

Sales of Japanese Affiliates in EU, by Destination

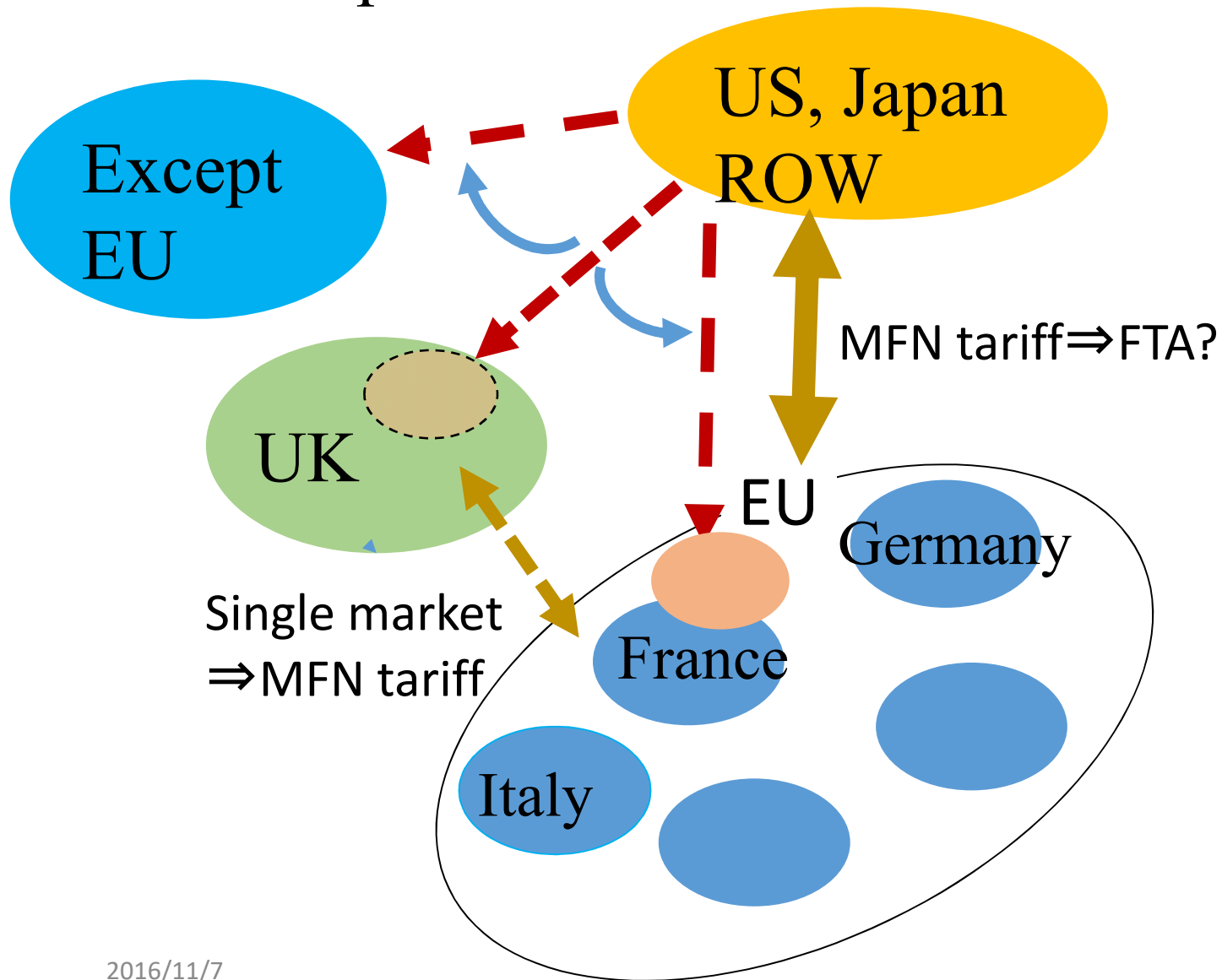


Loss or gain for UK, EU, and ROW from the collapse of Factory EU



- UK loses: Diversification of trade and FDI from UK to EU or other
- EU may gain if factories move in EU, but really?
EU may lose due to the shrink of the large liberalized market
- ROW will lose because of inefficiency

What movement Brexit induces in the European market?



Future arrangement between A single market and WTO

- Possible choices for UK: New arrangement
 - WTO-MFN
 - UK-EU FTA
 - EFTA revival
 - UK-TTIP, TPP, Japan EPA (?)
- EU may lose, then may move to
 - TTIP
 - EU-Japan EPA
- Wisdom to share the dividend from economic compromise between UK and EU ?

What efforts for Japan to maintain Factory EU in UK?

- EU-Japan EPA
- UK-Japan EPA
- Synapse?

