

# Making a success of Brexit

Evaluating the impact on the economy  
of the WMCA and wider region



IN CONJUNCTION WITH





# Summary of Recommendations

---

## Regional Level

- Reliable and accurate trade data available on a regional level to inform businesses as they attempt to expand their trading area.
- Direct investment in infrastructure in order to further increase business productivity in the region.
- A strategy in place to provide the skills demanded by businesses and needed for productivity growth.

## Opportunities for the Region

- A strategy for businesses in the region to expand exports to the range of smaller and more culturally diverse economies which are, as yet, untapped.

## Expectations of Negotiations

- A distinct “British Option” to be formed.
- Guidance to LEPs and LAs on what they can expect from Brexit.
- Clear guidelines for businesses on what trade positions to expect during and immediately after the negotiation period.

## Key asks of Government

- Bring investment in the region into line with that of London and the devolved nations through an updated funding formula.
- Continuation of funding to universities to allow vital research and development to continue.



This report was written and compiled prior to the Prime Minister's statement on 17th January 2017 and has been updated accordingly. However, the thrust of the analysis remains the same.

## Foreword

---



**Professor Julian Beer,  
Deputy Vice Chancellor,  
Birmingham City University**

The June 2016 EU membership referendum result was a decisive vote to leave in the West Midlands, with a majority of 18.6% on a turnout of 72%.

Although the vote to leave majority was narrower on a United Kingdom level, at 3.8%, a democratic decision has been made and the negotiating process for exiting the EU will be commencing during 2017. It may prove difficult for the Government to trigger Article 50, of the Treaty of Lisbon, by its target date at the end of March. However, given current circumstances it would appear inevitable that the country will have, in some framework, left the EU by sometime in 2019.

At a national level, it is apparent that there remains considerable debate over what the Leave result means – is it to leave the EU in its entirety, or should it be a looser exit retaining membership of both the European Single Market and the European Customs Union? The Government's stated aim is to leave the EU fully. The purpose of this analysis is not to evaluate which is the most appropriate course of action to take, rather it is to assess what is the most likely outcome and the impact on the West Midlands economy.

This paper is intended to act as an overview of the current state of play, and provide an introduction to the range of issues that might conceivably arise as a result of leaving the EU. As a Birmingham City University Discussion Paper, the intention is to generate debate and responses are welcomed by the Centre for Brexit Studies to inform their deliberations.

I would like to thank the authors of this report, the West Midlands Economic Forum, for a welcome initiative, and our Centre for Brexit Studies, and the Black Country Chamber of Commerce for the support they have provided.

# Table of Contents

---

Summary of Recommendations	1
Foreword	2
Table of Contents	3
Summary of Considerations	4
Introduction	6
The WMCA Economy	9
West Midlands Trade Performance	13
Infrastructure Constraints	19
The Result	21
The Impact on the British Economy	24
The EU Relationship	29
Constitutional Impact	31
International Organisations	32
Non-Tariff Barriers	33
Options	34
Potential Timetables	39
<hr/>	
Appendix 1: Article 50	41
Appendix 2: Current Memberships	42
Appendix 3: WMCA June 2016 Referendum – Comparative Results	44
Appendix 4: West Midlands Comparative Economic Performance	45
Appendix 5: WMCA Basic Data	46
Appendix 6: West Midlands Trade Data	48
Appendix 7: Theresa May's 12 Objectives for Brexit	50
Glossary	51
Authors & Contributors:	52

## Summary of Considerations

---

The June referendum, as with all referenda, offered a simple binary option to deal with a complex array of problems that Parliament felt itself incapable of resolving. However, rather than produce a Gordian Knot solution, the referendum result has not enabled a policy consensus to be agreed on the future direction of trade and economic policy nationally. If anything, the situation has become even more confused and partisan. At the time of writing, the Government has stated it does not intend to publish detailed plans on how it wishes to pursue the exit process. Accordingly, in the absence of Parliament calling a second referendum or new legislation to agree a fresh direction, local bodies and corporates must work on the basis that Brexit means Brexit.

The working assumption must be that sometime in 2017 the Government will trigger Article 50 of the Treaty of Lisbon (see Appendix 1) and that 24 months from this date that Britain will have seceded from the European Union (EU). At present, until contrary advice is available, taking note of the public stance adopted by both the EU and (seemingly) most member states, it must be assumed that exiting involves, formally and legally:

- Constitutionally and politically leaving the EU,
- Ceasing to be a full member of the European Single Market,
- Ceasing to be a full member of the European Customs Union.

Thus, recognising the constraints imposed by the respective positions adopted by both the British government (especially on free movement of labour) and its erstwhile EU partners, the optimum negotiating stance must be:

- Securing preferential access to the European Single Market,
- Securing preferential access to European Customs Union,
- Securing transitional trade arrangements whilst a new Free Trade Agreement (FTA) is being negotiated,
- Negotiating an FTA that builds on Britain's long-established EU opt-outs secured through the variable geometry arrangements,
- Providing for West Midlands involvement in the formal Brexit process.

Whilst FTAs are important in cementing economic and trading relationships between countries over the medium-to-longer-term, these can only be negotiated once trade flows develop and it becomes possible to determine their scale, scope and potential evolution. Given the likely challenging future trading conditions, necessary first steps should be to ensure the global competitiveness of the regional economy. This can only be done effectively by fully understanding said economy.

The issues confronting the regional economy pre-date the referendum result and, although these are acute, they should be understood as a problem of success – most notably the rapid growth of the export sector and the consequent skills gaps that this has led to. This regional economic vibrancy together with the underlying strengths, deficiencies and weaknesses of the economy need to be accommodated in all the negotiating processes. Indeed, it is important that Brexit is not simply perceived as adding additional complexity to regional policy making. Rather, it should bring the West Midlands economy into sharp relief and, if harnessed effectively, it could provide impetus to invest in the region and deliver inclusive growth.

Examining the structure of the regional economy, it is apparent that transport and communications infrastructure are operating at close to capacity and acting as a major brake on activity. Therefore, to improve international competitiveness, these infrastructure problems need to be addressed, across the following sectors:

- Broadband,
- Road,
- Rail,
- Aviation,
- Sea,
- Canals,
- Cycling.

In addition, there is a need to enhance the region's skills base and boost productivity through greater access to finance and capital. This in turn means addressing wider deficiencies in the region's labour markets and hence tackling structural and hidden unemployment.

Fundamentally, the tactics and strategy of the region should be based upon **making a success of Brexit.**



# Introduction

---

There are no road maps, let alone strategies, for a course never travelled before. Accordingly, flexibility and astuteness will be essential to ensure the transition is successful for the West Midlands Combined Authority (WMCA) and the wider region. This discussion paper attempts to outline the current interaction between the economy of the WMCA, and wider West Midlands region, with that of the EU and considers what the impact of Brexit locally could conceivably be.

Although the WMCA is not yet a full partner in any Brexit negotiations, this paper attempts to set out the aspects of the region's trading relationship in which the impact is likely to be the most significant and where the region needs to articulate its own Brexit objectives. Ultimately, regardless of the final form and structure of the exit from the EU and the trading relationship that evolves subsequently, Brexit **must** be made to mean success for the region.

In the absence of a second referendum on the issue of Britain's membership of the EU (and possibly a subsequent reversal of the June 2016 referendum result), or a new legislative initiative by Parliament to embark on a different strategy, to all intents and purposes Britain will be leaving the EU in the near future. Unless and until there is a constitutional reversal of the July referendum result, the process of leaving must be made a success: there is no other option.

Already the region is lagging behind other constituent parts of Britain, as well as international bodies, in establishing its aspirations in terms of what it wishes to secure from the negotiations. Governments and corporates across the EU, and indeed globally, have now had over half-a-year to develop contingency plans to accommodate the exit of Britain from the EU.

These strategies can already be seen to be evolving in the fiscal programmes being adopted by governments across Europe for 2017 and beyond. Additionally, many Non-EU bodies are lobbying for consideration by the Government. The Japanese government for instance, has already published a detailed 15-page memorandum, the central message of which is that the Brexit process needs to be transparent, intelligible and predictable.

Similar calls have been made by British businesses and their representatives, such as the British Chambers of Commerce as well as by the CBI, advocating neither a so-called hard nor soft Brexit, but a smooth Brexit, namely a clear process against which business can plan. The Government has said that it will not give a running commentary of its negotiation progress, which is a stance many can respect and it is now welcome that the Government has signposted the direction of intend and a broad outline of desired objectives has been given.

Whatever direction any negotiations ultimately take, their principal features will be that they will be protracted, complex, detailed and probably quite boring. Their final impacts will, however, be profound and may ultimately be realised in ways that are not currently perceived. Therefore, the region will need to be in a position to respond to developments as well as be able to continuously lobby for its interests throughout the negotiating processes for as long as they take.



The Government's current stance is that Brexit means Brexit, which has been reaffirmed by the Prime Minister's statement and indicates that the Government is taking the binary referendum result very literally and without equivocation. The question in the referendum was quite simple, namely:

“ **Should the United Kingdom remain a member of the European Union or leave the European Union?** ”

with the response either to:

“ **Remain a member of the European Union** ”

or to

“ **Leave the European Union** ”

By an overall majority of 3.8%, on a comparatively large turnout of 72.2%, the electorate voted to leave the EU. There has been much subsequent suggestion, notably by many from the pre-referendum Remain campaign, that leaving the EU did not necessarily mean exiting either the Single Market or the European Customs Union. Although the Leave campaign was noticeably reluctant to specifically state what Brexit entailed in detail, public pronouncements by many in the Leave campaign signalled a desire to end membership of, but not access to, both the European Single Market and the European Customs Union. Most probably this would initially be on World Trade Organisation (WTO) status (although it is unclear as to whether the UK would automatically retain WTO member status, given that trade negotiations were conducted collectively by the EU).

Given post-referendum public statements from political leaders of EU member states, continued membership of the Single Market and the Customs Union seems incompatible for states leaving the EU, as they appear intrinsic to membership. Donald Tusk, President of the European Council, has stated that “the only real alternative to hard Brexit is no Brexit” which could hardly be clearer. Recognising these seemingly insurmountable barriers, Brexit negotiations most probably need to concentrate on achieving some form of continued preferential access. Without a transitional arrangement to cover trade until a new trading regime is agreed, Britain will have to immediately adopt WTO trading arrangements. However, as noted above, confirming the scope and level of Britain's WTO membership and the mode by which it will be able to continue to trade with the EU under WTO conditionalities, may prove more problematic than currently perceived. (See Appendix 2).

Trade Minister Liam Fox has commenced negotiations to clarify the form of relationship, if not immediate full membership, Britain will have with the WTO. Fox appears to be in the process of at least mapping out the scope of what is required to ensure the quickest, if not immediate, accession to fully-functioning WTO membership. Regardless of legal issues, the EU political consensus seems firmly to be that no trade negotiations, formally or informally, with either EU or Non-EU entities can take place until Article 50 is triggered at the earliest and perhaps as late as when these reach a conclusion.

Once the Article 50 process commences, the form of Brexit can start to be clarified and defined. Potentially, the EU could simply confirm the date of Brexit without any agreement and allow the reallocation of residual obligations and responsibilities to the determination of the European Court of Justice situated in Luxembourg, or ultimately the International Court of Justice at The Hague. This outcome could severely delay EU-British FTA negotiations. Accordingly, the British negotiating stance will have to achieve a domestic consensus on Brexit aspirations and take account of these in the actual negotiations. Additionally, it will need to take into account what can conceivably be acceptable to the European Commission negotiators, the legislative bodies of the EU and its 27 members within a likely negotiating window of as little as 16 months.

The Government is likely to struggle to effectively manage such a timeframe, plethora of tasks, negotiations and competing relationships. Additionally, it must accommodate the domestic post-referendum political centrifugal tensions, as the recent Scottish independence referendum (and the possibility of another such referendum, leading to the potential breakup of the UK itself) demonstrates. Therefore, only those institutions that can articulate a coherent strategy can be expected to influence the initial and final Brexit outcomes.

Understanding and, crucially, articulating to policy-makers and Brexit negotiators the structure of the regional economy and the trading regimes that sustain it are essential if a successful Brexit intervention is to be made.

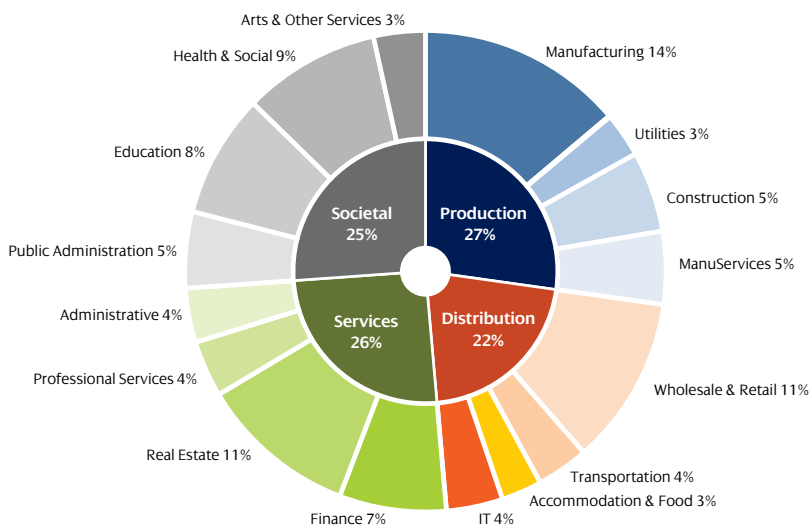


# The WMCA Economy

The WMCA is an internationally competitive economy, providing innovation and dynamism to a wide range of global value-added supply chains. The production sector, including manufacturing, continues to pre-dominate in terms of output with strong symbiotic relationships between many service sector enterprises and manufacturing. This structural relationship has stimulated the development of Intelligent Manufacturing within the region.

These service sector enterprises include designers, engineers, architects, process managers, quality controllers, market researchers and software specialists (the latter including both augmented reality and additive manufacturing constructors). They are either wholly or partially dependent on the manufacturing sector and in many respects, should be regarded as intrinsic to the production sector rather than services. They form a distinct sub-sector which has been termed ManuServices.

## WMCA OUTPUT STRUCTURE



Source: ONS & WMEF

The regional manufacturing structure is dominated by large globally ranked volume producers, notably but not exclusively in the automotive and aerospace sectors. These firms source products from precision-component suppliers, which are largely made up of local SMEs. These SME suppliers account for the majority of employment and a substantial proportion of total value-added in the sector.

The flexibility provided by this diverse range of SME component producers not only enables rapid response to demand shifts in different but related sectors, but has also provided a platform for proximity manufacturing and design. Crucially, production of single components can necessarily involve a range of specialist SMEs, located in both manufacturing and ManuServices. With their operational knowledge and experience of different parts of the global economy and best technological practices they can bring an innovative dimension to WMCA productive capacity.

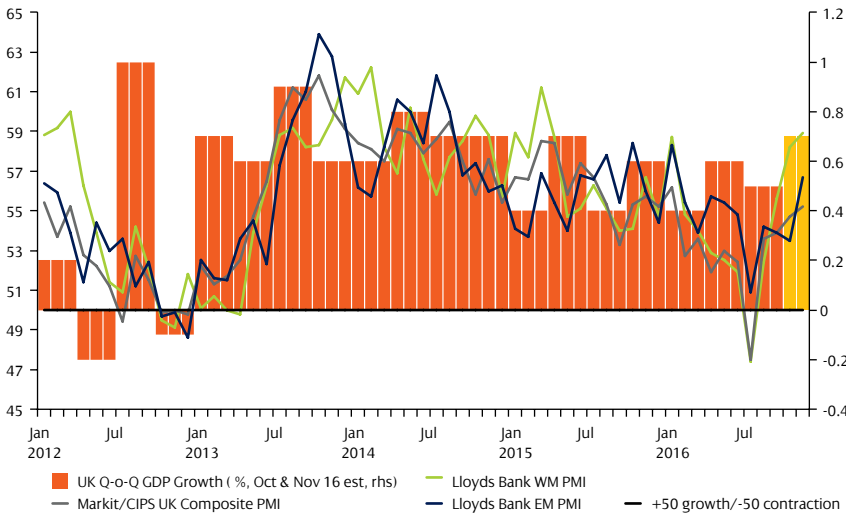
In many respects, the economic structure of the WMCA is distinct from that of many parts of the rest of Britain, as manufacturing accounts for a more substantial portion of the economy than is true in Britain as a whole. Similarly, extractive activities (traditionally mining but today primarily oil and gas extraction) are

important for Britain but have all but disappeared from the Combined Authority area where they were once a major source of employment.

The WMCA also differs from the wider West Midlands insofar as it has a larger professional services sector as well as being a larger financial centre. However, the professional services sector is inextricably linked to the wider productive sector. This is true both because of the number of businesses directly involved in ManuServices (particularly designers, engineers and consultants) and because of the importance of the wider region's manufacturers as a source of business for professional services firms.

Recent growth in the region, according to Purchasing Manager's Index (PMI) readings, has been vibrant. The West Midlands is out-performing other regions of the British economy. It is, therefore, no surprise that some major financial players are moving substantial operations to the WMCA (most notably Deutsche Bank and HSBC), joining a range of established players including Lloyds and Yorkshire Bank. This is in addition to significant regional building societies, such as the West Brom and Coventry building societies.

#### MIDLANDS OUTPUT PERFORMANCE



Source: IHS Markit, ONS & WMEF

In terms of manufacturing subsectors, the West Midlands also differs from other regions. Food, transport (notably the automotive and aerospace sectors), metalworking and rubber manufacturing form the bedrock of the West Midlands' manufacturing sector. In contrast, for example, the North West is highly dependent on chemicals and textiles (and to a lesser extent pharmaceuticals) with only food & drink as a shared major sector.

This is likely to have important consequences moving forward, and will shape regional asks of government both with respect to Brexit negotiations and more generally. The alleviation of many significant transport bottlenecks would be feasible merely by bringing per capita public expenditures into line with those given to London or Scotland, with commensurate benefits for supply-chain productivity and competitiveness.

Indeed, this is particularly true of the West Midlands for two major reasons. Firstly, the nature of the industrial sector requires good transport links. Automotive and aerospace manufacture involves the movement of heavy goods on a scale rarely matched by, for example, the pharmaceuticals industry. Additionally, the geography of the region (with its large urban centres and favourable topography) is

likely to give a greater return on investment than elsewhere. HS2 is likely to prove a further game-changer in this regard, giving the WMCA a significant competitive advantage over more distant regional centres.

Similarly, raising investment in the region's schools and maintaining existing funding flows to universities and the region's wider research infrastructure after the withdrawal of shared European funding will prove crucial to ensuring continued prosperity. Whilst by comparable historic standards the region now possesses its most academically educated population, there remain critical skill shortages. Access to technically experienced, process competent and bespoke machine-trained personnel is a particular problem. Although this is an acute problem and one that urgently needs tackling, it should be recognised as a problem of success given the recent robust performance of the production and distribution sectors.

Targeted mid-career access to new skills and refresher courses, as well as more technically focussed apprenticeships, should be invested in to alleviate the present shortage of skills in key areas, although there are some projects in the pipeline such as the 2016 Post-16 Skills Plan. Such skills programmes, given current conditions, would probably be taking place in a tightening labour market, with the most recent unemployment rate calculated at 5.6% (ILO definition, September to November, 2016). Similarly, out-of-work benefits claimants represent just 2.2% of the population (December 2016).

This does not ignore the fact that there are pockets of severe deprivation and long-term unemployment and hidden unemployment across the region, or that a significant proportion of the labour force are on the lower-end of the wage spectrum or securing employment via zero-hours contracts. Unemployment and economic inactivity are more acute in the urban WMCA areas than the rural hinterlands and suburban fringes. The official unemployment rate for the City of Birmingham alone during 2015-16 was in the order of 10.9% and if the "economically inactive who want a job" are added to this, then an augmented "joblessness" rate of 18.1% becomes apparent – i.e. more than one in six of the Birmingham workforce.

#### UNEMPLOYMENT AND HIDDEN UNEMPLOYMENT

APS JULY 2015 – JUNE 2016

Area	Number of Economically Active	Number of Unemployed	% of Economically Active who are Unemployed	Number of Economically Inactive who Want a Job	Adjusted Unemployment Rate
WMCA	1,250,700	103,300	8.3	91,300	14.5
Birmingham	482,700	52,400	10.9	42,400	18.1
Coventry	155,900	5,300	3.4	8,000	8.1
Dudley	141,300	9,300	6.6	9,700	12.6
Sandwell	139,700	10,200	7.3	10,800	14.0
Solihull	97,000	4,700	4.8	5,300	9.8
Walsall	118,400	9,100	7.7	8,100	13.6
Wolverhampton	119,500	10,800	9.0	7,000	14.1

Source: NOMIS & WMEF

Of course, there is a difference between expressing a desire to work from actually having the skill set or physical attributes needed to perform work tasks, particularly where considerable manual dexterity is required. As an example, this in itself could limit the actual tasks that could be performed by those designated as economically inactive due to long-term illness who still express a desire to work. Other people studying or having family responsibilities are also necessarily limited in terms of any work they could undertake. These issues notwithstanding, it does appear that there could be more available persons to work than official unemployment figures suggest.

MAKE-UP OF THE ECONOMICALLY INACTIVE POPULATION

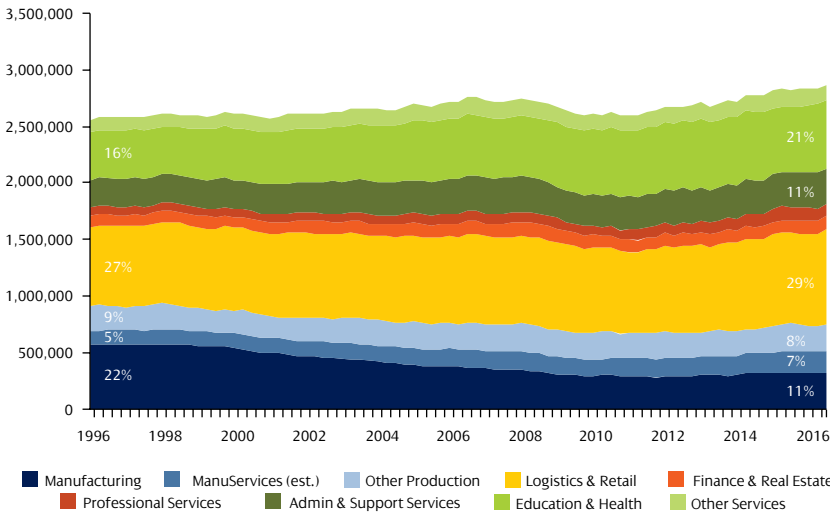
	Coventry		Solihull		WMCA	West Midlands	Great Britain
	No.	%	No	%	%	%	%
Student	29,200	41.0	7,300	24.3	30.4	27.0	26.1
Looking After Family	17,800	25.0	7,600	25.3	29.9	26.2	24.7
Temporary Sick	1,500	2.2	700	2.3	2.7	2.7	2.3
Long-term Sick	10,700	15.0	6,300	20.9	20.9	22.1	22.5
Discouraged	N/A	N/A	N/A	N/A	0.5	0.6	0.4
Retired	6,200	8.8	4,500	15.1	8.1	12.4	13.6
Other	5,700	8.1	3,400	11.3	7.4	9.1	10.5
Total (population aged 16-64)	71,300	31.4	30,000	23.6	29.7	24.8	22.1

Source: NOMIS & WMEF

Coventry and Solihull have been selected as examples in the table above in order to highlight variations in the breakdown of the economically inactive. Coventry, with two universities, would be expected to have a higher proportion of students, whilst Solihull, with an older, more affluent population, displays a higher proportion of retirees.

Nevertheless, in the absence of any concrete measures to facilitate inclusive economic growth for such individuals, rather than having a large available pool of (retrained) unemployed labour to draw upon, the upgrading of the skills base and technical competencies will increasingly have to take place within the context of currently employed labour. This is in addition to compensating for the continuing erosion of actual applied experience in the labour-force. Moreover, labour is unlikely to become available from other sources as the Brexit decision itself would appear to preclude fresh externally-sourced immigration.

EVOLUTION OF WM SECTOR EMPLOYMENT



Source: ONS & WMEF

In spite of these difficulties, the relatively rapid re-profiling of the sectoral structure of the West Midlands labour market over the past few decades suggests that the responsiveness and flexibility of the local economy should not be under-estimated. However, skills issues are only one of the infrastructure related problems that are currently constraining the region's output performance and dampening its growth prospects, the rest of which will be addressed later in the paper (see Infrastructure Constraints).

# West Midlands Trade Performance

Analysing sub-national economic performance is difficult anywhere in the world, given the issues surrounding effective data capture. Mapping economic movements across regional borders, which are not as easily identifiable or measurable as that across national borders, poses particular issues. Supply-chains criss-cross these borders, as do indeed private-sector corporate operations. However, these issues are compounded when national agencies, charged with regional responsibilities, adopt different methodological approaches to regional aspects. As a result, there is often lack of consistency in the published time series, as demonstrated below, aside from the significant longitudinal and latitudinal issues.

## REGIONAL TRADE STATISTICS – DATA DISCREPANCIES

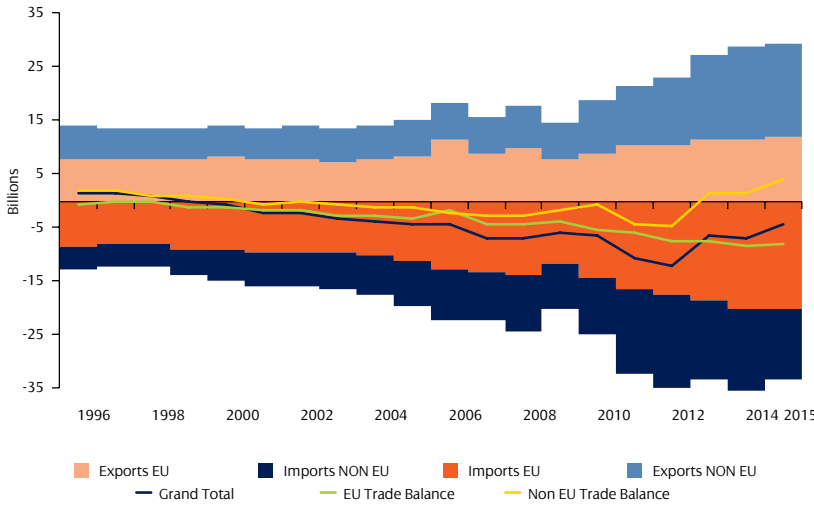
Merchandise Exports – £ '000				Merchandise Imports – £ '000				Merchandise Trade Balance – £ '000			
RTS Online		RTS 06-Dec-16	Variance	RTS Online		RTS 06-Dec-16	Variance	RTS Online		RTS 06-Dec-16	Variance
279,548	UK	275,414	4,134	398,827	UK	394,517	4,310	-119,279	UK	-119,103	-176
12,153	North East	10,868	1,285	8,749	North East	11,020	-2,271	3,404	North East	-152	3,556
24,914	North West	27,149	-2,235	24,085	North West	32,770	-8,685	829	North West	-5,621	6,450
16,582	Yorks & Humber	14,065	2,517	21,993	Yorks & Humber	25,849	-3,856	-5,411	Yorks & Humber	-11,784	6,373
19,332	East Midlands	15,266	4,066	21,787	East Midlands	19,908	1,879	-2,455	East Midlands	-4,642	2,187
28,966	West Midlands	24,630	4,336	33,232	West Midlands	28,940	4,292	-4,266	West Midlands	-4,310	44
21,418	East	24,038	-2,620	45,596	East	37,208	8,388	-24,177	East	-13,170	-11,007
32,305	London	33,749	-1,444	69,794	London	63,071	6,723	-37,489	London	-29,322	-8,167
40,568	South East	37,844	2,724	90,162	South East	76,468	13,694	-49,594	South East	-38,624	-10,970
15,276	South West	20,892	-5,616	20,407	South West	23,625	-3,218	-5,131	South West	-2,733	-2,398
211,514	England	208,501	3,013	335,805	England	318,859	16,946	-124,291	England	-110,358	-13,933
12,199	Wales	11,612	587	7,079	Wales	12,772	-5,693	5,119	Wales	-1,160	6,279
17,494	Scotland	25,480	-7,986	13,022	Scotland	21,356	-8,334	4,472	Scotland	4,124	348
6,308	N Ireland	6,959	-651	6,106	N Ireland	9,270	-3,164	202	N Ireland	-2,311	2,513
32,033	Unknown	22,862	9,171	36,814	Unknown	32,260	4,554	-4,782	Unknown	-9,398	4,616

Source: Source: HMRC & WMEF

In attempting to comprehend the impact of the Brexit process on the region, comprehensive and accurate information on visible and invisible trade with not only the EU, but also with the overall general global economy, will be key. Unfortunately for the region, let alone the WMCA, such data is not available. Currently, there are no services export data series available for the region, other than experimental statistics. This is despite the fact that many of the main exporting companies derive a significant proportion of their revenue from services. Furthermore, although financial services related-exports are crucial to the national balance of payments, these provided just over 15% of total services exports in 2015, with the remaining 85% sourced from the wider economy. Moreover, as can be seen from the table above, there are significant discrepancies in the provision of actual data series.

If the WMCA and West Midlands are going to successfully exploit the new conditions made available from the Brexit process then access to a reliable, accurate and comprehensive trade data base will be essential.

WEST MIDLANDS EU AND NON-EU TRADE BALANCE

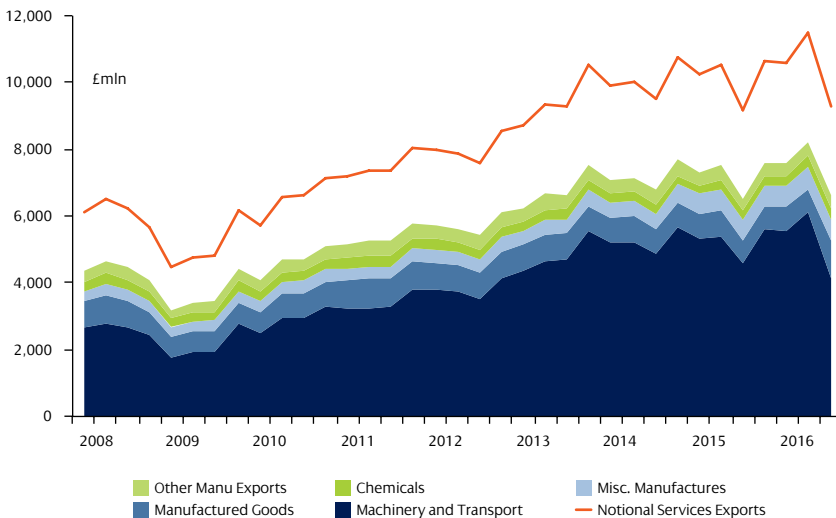


Source: HMRC & WMEF

Notwithstanding these major data concerns, the West Midlands economy, and within it that of the WMCA, is comparatively strongly export-orientated with a range of dynamic local enterprises operating competitively within global value-added supply chains. In England, the West Midlands ranks second, with exports equivalent to 24% of total regional GVA, marginally behind that of the North East, and significantly outperforming other English regions.

These exporting enterprises have successfully exploited global opportunities which became available in the aftermath of the global financial crisis, as well as being able to respond to weak demand conditions over this period in the EU, by shifting focus to Non-EU markets. Notwithstanding these constraints, export performance in both the EU and Non-EU grew strongly compared to the previous peak in 2008 and accelerated from the depths of the 2009 global trade contraction.

WEST MIDLANDS EXPORT EVOLUTION



Source: HMRC & WMEF

Exports as a whole have revived robustly since the 2009 collapse in global trade. Moreover, this is actual new growth rather than reflecting recovery, as compared to the previous peak in 2008, overall exports have expanded by some 65%, which for a mature economy is remarkable. Machinery and transport equipment comprise the largest component of West Midlands' goods exports, averaging 66% of exports since 2008.



## WEST MIDLANDS TOP TWENTY TRADE SECTORS

2015						2015					
	£'000	% of Total	Rank	% of Total	£'000						
Total Merchandise Exports	28,965,708	100		100	33,232,052	Total Merchandise Imports					
Road Vehicles	14,523,343	50.14	1	13.49	4,482,179	Road Vehicles					
General Industrial Machinery	1,929,510	6.66	2	11.78	3,914,671	Petrol Products					
Miscellaneous Manufactures	1,155,499	3.99	3	7.42	2,464,711	Electrical Machinery					
Power Generation Machinery	1,104,419	3.81	4	5.98	1,985,787	General Industrial Machinery					
Specific Specialised Machinery	1,081,967	3.74	5	4.65	1,543,713	Metal Manufactures					
Electrical Machinery	1,011,562	3.49	6	4.23	1,404,985	Miscellaneous Manufactures					
Metal Manufactures	936,768	3.23	7	3.82	1,268,987	Specific Specialised Machinery					
Professional & Scientific Equipment	654,951	2.26	8	3.78	1,254,968	Iron & Steel					
Non-ferrous Metals	649,381	2.24	9	3.55	1,179,603	Power Generation Machinery					
Other Transport Equipment	612,829	2.12	10	3.51	1,165,039	Non-ferrous Metals					
Metalliferous Ores & Scrap	512,467	1.77	11	2.89	960,659	Rubber Manufactures					
Rubber Manufactures	414,091	1.43	12	2.83	939,162	Professional & Scientific Equipment					
Iron & Steel	379,736	1.31	13	2.25	749,196	Meat					
Non-metallic Mineral Manufactures	332,926	1.15	14	2.02	671,064	Furniture					
Photographic Equipment	267,254	0.92	15	1.96	650,980	Fruit & Vegetables					
Chemical Materials	227,591	0.79	16	1.86	618,875	Non-metallic Mineral Manufactures					
Telecomms Equipment	226,190	0.78	17	1.65	547,850	Apparel & Clothing Accessories					
Meat	225,507	0.78	18	1.46	483,997	Telecomms Equipment					
Metalworking Machinery	221,718	0.77	19	1.26	419,371	Other Transport Equipment					
Apparel & Clothing Accessories	213,389	0.74	20	1.17	387,372	Pre-Fabricated Buildings					
Other Merchandise Exports	2,284,610	7.89		18.47	6,138,883	Other Merchandise Imports					

Source: HMRC &amp; WMEF

The EU collectively was the West Midlands' largest export market in 2015, making up 41.5% of exports in 2015. The USA and China were the next two largest, and the three markets together make up around three quarters of the West Midlands' exports.

Despite the strength of export performance, the West Midlands continues to run a significant merchandise trade deficit, which as a proportion of the regional economy is equivalent to 3.6%. This is with the important caveat that in the services export data, it is only possible to estimate the external strength of the local economy. The structure of the West Midlands' global trade flows has changed subtly in recent years, with the Non-EU merchandise trade deficit growing smaller than the EU merchandise trade deficit since 2007 and turning to a surplus in 2013.

## WEST MIDLANDS EXPORTS (£M)

	Country	2015	2014	2013	% of Total Exports 2015		% change 2013-2015	Export Penetration 2015
1	USA	5,416.915	4,169.323	4,016.651	18.70		34.86	0.36
2	PRC	3,690.292	5,296.725	4,001.108	12.74		-7.77	0.33
3	FRG	2,963.907	2,609.879	2,477.959	10.23		19.61	0.43
4	France	1,814.985	1,856.866	1,843.188	6.27		-1.53	0.48
5	Irish Republic	1,191.671	1,147.341	982.926	4.11		21.24	2.55
6	Italy	1,083.451	976.827	916.955	3.74		18.16	0.40
7	Netherlands	1,065.074	1,125.176	1,141.004	3.68		-6.65	0.32
8	Spain	972.246	694.358	693.551	3.36		40.18	0.48
9	UAE	745.185	637.213	583.265	2.57		27.76	0.58
10	Australia	700.865	556.691	566.436	2.42	Top 10 = 67.82	23.73	0.51
11	Belgium	670.267	688.758	646.831	2.31		3.62	0.27
12	RoK	529.396	418.354	322.485	1.83		64.16	0.19
13	Canada	487.391	464.595	412.17	1.68		18.25	0.17
14	Russia	456.389	804.895	901.648	1.58		-49.38	0.36
15	Sweden	422.02	530.662	507.863	1.46		-16.90	0.47
16	Turkey	362.697	347.536	393.871	1.25		-7.91	0.27
17	Poland	358.558	365.593	312.323	1.24		14.80	0.28
18	Saudi Arabia	329.859	258.28	243.244	1.14		35.61	0.30
19	Switzerland	328.357	343.208	342.443	1.13		-4.11	0.20
20	RSA	287.473	259.243	375.415	0.99	Top 20 = 82.43	-23.43	0.49
	<b>Total</b>	<b>28,965.71</b>	<b>28,726.18</b>	<b>27,052.39</b>	<b>100.00</b>		<b>7.07</b>	<b>0.26</b>
	<b>EU</b>	<b>12,035.73</b>	<b>11,528.97</b>	<b>11,119.82</b>	<b>41.55</b>		<b>8.24</b>	<b>0.40</b>

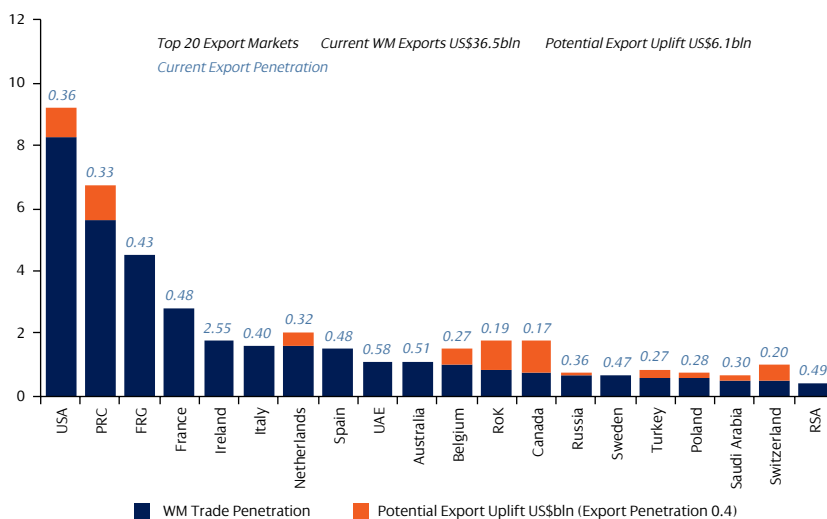
Source: HMRC, UNCTAD &amp; WMEF

Future merchandise trade prospects are mixed, largely due to the degree of global political and economic uncertainty. It is not clear what trade policy orientation the incoming US Presidential administration will adopt, although the Trans-Pacific Partnership seems no longer likely to involve the United States, and the Transatlantic Trade and Investment Partnership is being questioned not only in Washington but also within the EU. If the new administration does adopt a domestically-orientated stimulus package, then reinvigorated US economic growth may provide strengthening demand for West Midlands exports, provided a shift to a more overtly protectionist stance is not immediately adopted.

However, with China forecast to record a slowing in its rate of growth, coupled with apparently increasing trade tensions with the new US administration, export demand from the region's second highest single export market may ease further. Therefore, the 9.8% decrease in Chinese demand for West Midlands' exports experienced between 2013 and 2015, could very well be set to continue. Furthermore, with tighter US monetary policy expected to ratchet up US interest rates through 2017, any reversal of capital flows to Emerging Markets could diminish import demand in the markets the region seeks to develop post-Brexit. Although these market conditions are not necessarily the most challenging, neither are they the most benign. Efforts to improve the competitiveness of the WMCA economy, largely through direct infrastructure investment, could prove vital.

The ultimate economic and trading relationship with the EU will take a number of years to conclude, by which time both Britain and the EU are likely to be fundamentally different constructs. By the likely constitutional and political separation date of 2019, however, a new and distinct trading relationship will have emerged, either by accident or design. In an attempt to determine how future relationships may evolve, and where potential growth may lie, consideration has to be made of the strength of trade flows to the current top 20 markets for the West Midlands.

#### WM TRADE PENETRATION



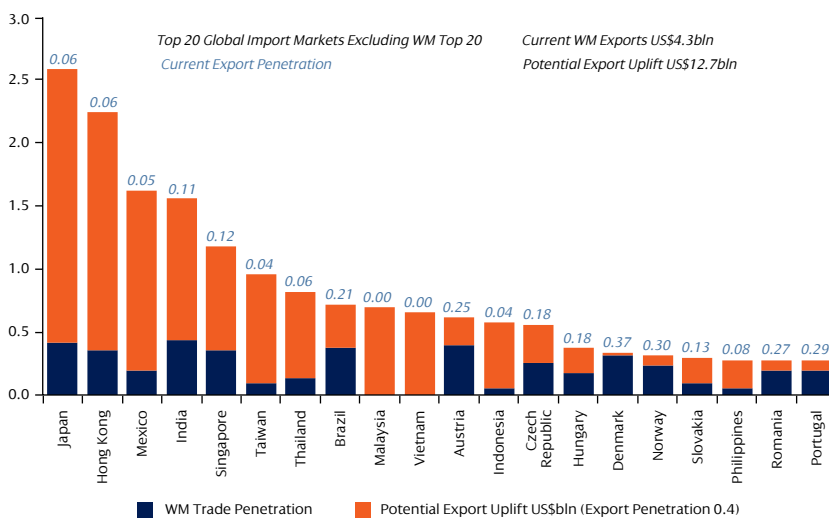
Source: UNCTAD, HMRC, OECD & WMEF

Without taking into consideration variables such as connectivity, regulatory regimes, non-tariff barriers, economic openness and ease of doing business (but which would be considered if the analysis is to be developed as a business tool) the current West Midlands global export penetration has been calculated. The West Midlands has achieved an export penetration of 0.4% for the EU as a whole, where market access, if not business conditions, are currently favourable. However, globally it only has an average export penetration of 0.24%.



By taking the 0.4% level as the optimum target to achieve in each export market, just utilising volume data without any other variables, it is possible to start identifying where growth is conceivable and by what amounts. Thus, it is possible to conceive of a potential further uplift in exports of US\$21.87bn from the current level of US\$43.57bn to US\$65.44bn, provided a supportive policy framework is put in place. Of the current top 20 markets, levels with the EU are close to the optimum level, the question being how to sustain these after Brexit. Future growth could be achieved in the US, PRC, RoK, Canada and India, which could be boosted after 2019 by moves to reciprocal trade agreements on existing terms whilst full FTAs are negotiated. Furthermore, as a result of Brexit, with what can be anticipated as new conditionalities (although their hue and heft cannot be predicted at present), access to the EU will itself become one of fresh market opportunities.

**WM TRADE PENETRATION (2015)**

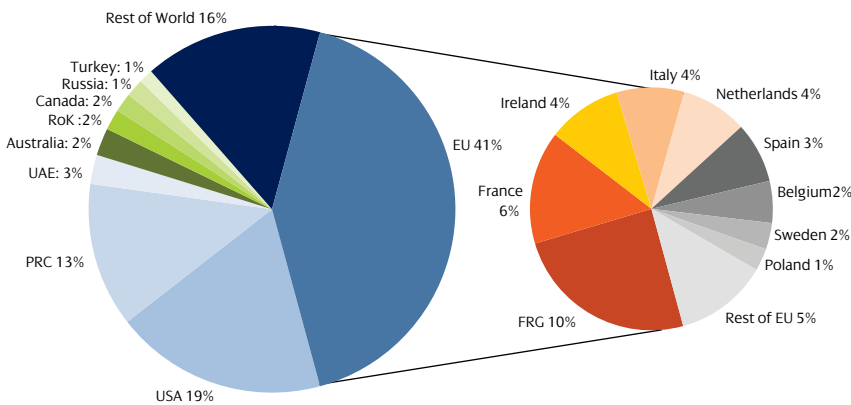


Source: UNCTAD, HMRC, OECD & WMEF

As the three largest West Midlands export markets, the USA, the EU and the PRC comprise 57% of global GDP. If growth in the rest of the global economy is to be achieved a strategy should be developed on how to access a range of smaller, more culturally diverse and regulatory specific economies. Some have substantial formal and informal trade restrictions, whilst others are beset by civil conflict and these may constrain any attempts at an export push.

A further factor is trade compatibility: does the region produce the range and volume of goods, competitively delivered and within time-frames that these economies want and demand? Nevertheless, it is surprising to find that the current trade levels being achieved with Japan, Hong Kong, Mexico and Taiwan are so low, as well as the apparent complete absence of trade with Malaysia, Vietnam and Indonesia.

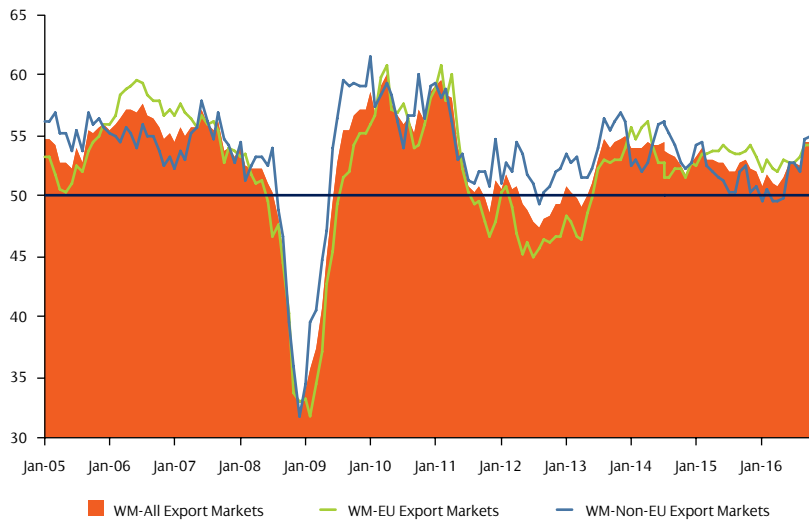
**WEST MIDLANDS: MAJOR EXPORT MARKETS**



Source: HMRC & WMEF

In addition to competitiveness gains potentially arising from the depreciation of Sterling, according to the latest WM Export Climate Indicator (a trade-weighted average of PMIs of the West Midlands top-20 export markets, not adjusted for exchange rate factors) both EU and Non-EU export markets for the West Midlands are recording firmer output prospects, and accordingly demand is expected to strengthen.

**WM EXPORT CLIMATE INDICATOR**



Source: IHS Markit & WMEF

# Infrastructure Constraints

---

Infrastructure constraints are perhaps as great an influence on regional economic growth as the final outcome of the Brexit process. Indeed, if Brexit is to be a success, then provision of an internationally competitive infrastructure is essential.

Currently there is a considerable imbalance in the regional and national allocations of public sector transport funding. Transport funding per capita in the West Midlands is less than half of that in Scotland and under 40% of its level in London. This is particularly noticeable when looking at capital expenditure where, as of the 2014-15 fiscal year, the Midlands (population 10.4m) had a mere £1.72bn spent, compared with London (population 8.7m) which enjoyed capital expenditure of £3.87bn.

Despite having a much larger population, the Midlands had over £2bn less spent on its transport infrastructure than London in 2014-15 alone. Over a longer period, this shortfall is cumulatively very large, being almost £15.3bn over the past 10 years. This failure to invest in transport infrastructure throughout the Midlands (including, but not limited to, the WMCA region) is having a deleterious effect on regional economic development.

Moreover, it is important to have a holistic view of transport bottlenecks throughout the Midlands given the preponderance of trade done by companies based in the WMCA. Connectivity to the Derby aerospace cluster is key for a variety of manufacturers in and around the Black Country, for example. Similarly, ensuring good access to ports (notably Southampton, Liverpool, Hull and Felixstowe) is critical for exporters.

From previous research undertaken and discussions with local institutions, the issues that need immediately addressing are:

## a) Broadband

- Need for average download speeds to be significantly enhanced to at least 30Mbps and 100% coverage, in line with global competitors,
- Need to develop an IPv6 strategy at WMCA level.

## b) Road

- Significantly enhance road transport capital and maintenance funding across the WMCA to London levels to offset decades of underspending,
- Enhance WMCA to countryside local road connectivity,
- Need to tackle congestion bottlenecks on M6,
- Regionalise M6 Toll road, with view to abolishing toll,
- Improve east-west road links, especially A5, A38 and A42,
- Develop M54/A5 and M50/M40/A48/A40 export routes,
- Expand A41 capacity,
- Expand A49 capacity.

**c) Rail**

- Bring forward identified Midlands' rail projects shunted into 2025-30 implementation period because of funding confusion,
- Effectively fund Midlands Connect strategy through Transport for Midlands, modelled, managed and funded on comparable basis to Transport for London and Transport for Scotland,
- Re-connect direct link Wolverhampton-Walsall, and Enterprise Zone stations,
- Expand Metro to Dudley, Walsall, i54 and to Birmingham Airport and HS2,
- Re-establish passenger service on Sutton Park line, to create alternate Wolverhampton-Walsall-Aldridge to Birmingham Airport and HS2,
- Fund Whitacre link, to reconfigure east-west links and transform West Midlands rail network,
- Fast links from the Black Country to HS2,
- Link HS2 to HS1,
- Link Birmingham New Street-Moor Street-Curzon Street rail stations,
- Expand physical capacity at Birmingham New Street,
- Black Country representation on West Coast Mainline and HS2 Supervisory Boards.

**d) Aviation**

- Place Birmingham Airport at core of national aviation strategy and fund accordingly,
- Lobbying for equality with London Heathrow and Manchester on positioning and funding.

**e) Sea**

- Improve connectivity to major export sea ports.

**f) Canals**

- Reconnect Chasewater to Lichfield canal, to open-up Black Country tourism.

**g) Cycling**

- Develop cycling strategy to include new cycle routes, including bridleways and canal towpaths.

# The Result

The previous referendum on Europe, in 1975 on continued membership of the then European Economic Community, secured a vote of 17.38 million votes to remain, or 67% in favour on a 64% turnout – equivalent to a 34% majority.

The turnout for the June 2016 referendum was somewhat stronger at 72.2%, although the 17.4 million vote in favour of leaving was much narrower at 3.8%.

Compared to post-1945 twentieth century general elections the level of turnout was not unusual. However, the turnout was almost 10 percentage points higher than those recorded in general elections post-2000. Whereas in 1975 the political and business establishment could secure a majority in favour of its preferred option, in 2016 some 52% of votes opposed the establishment consensus view, with some three-quarters of current MPs in favour of remaining a member of the EU.

## JUNE 2016 REFERENDUM: COMPARATIVE RESULTS

		Remain %	Leave %	Leave Majority		Turnout %
				Votes	%	
UK		48.1	51.9	1,269,501	3.8	72.2
of which:	England	46.6	53.4	1,921,410	6.8	73.0
	Scotland	62.0	38.0	-642,869	-24.0	67.2
	Wales	47.5	52.5	82,225	5.0	71.7
	Northern Ireland	55.8	44.2	-91,265	-11.6	62.9
	West Midlands	40.7	59.3	548,512	18.6	72.0
	East Midlands	41.2	58.8	442,443	17.6	74.2

Source: Electoral Commission, WMCA & WMEF

Furthermore, there were marked national/regional variations in the voting results. All English regions, with the notable exception of London, voted to leave with five recording majorities of over 10%. In each of these regions, the leave vote was close to, or in excess of, 40% of the total electorate, and even in the three areas (London, Scotland and Northern Ireland) that voted to remain, the leave vote was over a quarter of the electorate. The remain vote in leave regions, ranged from a low of 28% in the North East to a high of 37% of the total electorate in the South East.

In the nations and region that voted to remain, the remain vote as a proportion of the total electorate was 35% in Northern Ireland, and 42% in both Scotland and London. The turnout in remain areas was amongst the lowest by margins of a few percentage points. It seems notable that three of the four devolved administrations voted to remain, and perhaps there is some link between devolution and the level of the remain vote.

There has been much discussion as to why a majority of the overall United Kingdom electorate, and especially those in England, appear to be alienated from the message delivered by the political and business establishment. Initially it was suggested that the referendum result was due to those so-called “left-behind” in the equivalent of an English “industrial rust-belt”.

Indeed, the vote for leave was significant in the traditional Labour-voting areas of the Midlands, the North of England and the Welsh valleys, suggesting that arguments around migration and low-paid workers had more traction with voters than any nascent concerns over employment rights. Research for the Joseph Rowntree Foundation suggested that workers on low incomes were more likely

to support Brexit. Much work in the UK is low-paid and insecure, with analysis by the Resolution Foundation suggesting that over 7 million workers, or some 22.2% of the workforce in 2016 (up from 18.1% in 2006) were in precarious forms of employment. Precarious workers are those who could lose their job at “short or no notice”. This only serves to highlight that for those in precarious forms of work, the platform of employment rights were already minimal – if indeed enforced. This is in a context where the median average salary for full time workers in the tax year ending 5th April 2015 was only £27,615.

Of the 22.2% of the workforce defined as being in precarious work in 2016, 15.1% were self-employed, 4.3% on a temporary contract, and 2.9% on zero-hours contracts (which only comprised 0.5% of the workforce in 2006). Of the self-employed category, the Resolution Foundation’s analysis suggests that half are low paid and take home less than two-thirds of median earnings and that 2 million self-employed workers were earning less than £8 per hour.

Whilst this may be one contributing factor, the distribution of the Brexit vote was more or less uniform across much of England and Wales, in what are considered affluent regions as well as those deemed to have suffered industrial loss. Perhaps local notions of relative deprivation and affluence, especially in terms of economic advancement, social amenities and cultural access with perceived peer group comparators, may offer greater insights to the propensity to vote leave.





Exposure to international markets, or indeed any marked dependency on the EU, does not seem to be a determining factor. London and Scotland for instance, in terms of merchandise trade have amongst the weakest links with the EU. Similarly, export growth does not appear to give any indication of voting preference. The West Midlands was by some margin the region with the strongest export growth between 2008 and 2015, and was also the region that recorded the largest Brexit majority.

In the results for the local authority areas in the West Midlands (see Appendix 3), all bar Warwick voted in favour of Brexit. Although there were some narrow (e.g. Birmingham at 0.8%), and low majorities (Stratford at 3.1%, and the Malvern Hills at 4.3%), almost all West Midlands majorities were in double percentage figures. Majorities tended to be larger in local authorities with greater officially measured deprivation, but in what could be termed the more affluent local authorities, Brexit majorities were still wide by significant margins.

There must be some concern that, in an attempt to ameliorate sentiment in the areas that voted remain, namely London, Scotland and Northern Ireland, and to preserve the integrity of the United Kingdom, that the Government will offer greater concessions on fiscal autonomy and decentralised responsibilities to these areas. Furthermore, these devolved administrations, given their direct involvement in governmental discussions and (as yet unsubstantiated) constitutional capacity for legal intervention, could secure considerable variations within the overall final Brexit package, especially in regard to WTO schedules. For instance, relative quotas allocations are likely to prove a key arena of negotiation bartering. There is a real danger that products and processes deemed essential to London and Scotland, for example, and perceived as of national importance may be supported at the expense of goods and services originating in the West Midlands – especially given the apparent lack of comprehension of the present-day role of manufacturing, its scope and extent.

The Government discussion with Nissan and the subsequent decision by the multi-national to not only sustain production but make major new investment, may signal that a sector by sector, if not an industry by industry approach is being actively pursued by the government. Moreover, the Scottish government has expressed a clear preference to retain membership of the Single Market which would clearly prove difficult to reconcile with majority opinion in England.

With the West Midlands already some way behind on the devolution curve, it would be a cruel irony that a region that voted so firmly for Brexit, ultimately proves to be one of the least able to effectively articulate its overall aspirations, as well as its economic and trade preferences in the overall Brexit process.

# The Impact on the British Economy

To date the economic impact of the Brexit vote appears to have been benign. Notwithstanding some considerable market volatility in the immediate aftermath of the referendum, most economic indicators since have been relatively favourable. Recent revisions mean that growth immediately after the referendum was virtually unchanged from the second quarter and is almost exactly in line with historical averages.

## COMPARATIVE OUTPUT FORECASTS

			2015	2016e	2017f	2018f	2019f	2020f	2021f
<b>GDP</b> (annual % change)	OBR	r	2.2	2.1	1.4	1.7	2.1	2.1	2.0
	IMF	r	2.2	1.8	1.1	1.7	1.8	1.9	1.9
	Brexit Advocate		2.2	2.3	2.7	2.7	2.8	3.4	n/a
<b>CPI</b> (annual % change)	OBR	r	0.0	0.7	2.3	2.5	2.1	2.0	2.0
	IMF	r	0.1	0.7	2.5	2.6	2.0	2.0	2.0
	Brexit Advocate		0.1	1.1	1.6	2.8	2.6	2.1	n/a
<b>PSBR</b> (£bn)	OBR	r	-76.0	-68.2	-59.0	-46.5	-21.9	-20.7	-17.2
	IMF	r	-79.3	-63.7	-54.6	-46.7	-23.3	-16.5	-16.1
	Brexit Advocate		-78.1	-64.1	-62.9	-26.7	-19.8	-17.6	n/a
<b>PSBR</b> (% of GDP)	OBR	r	-4.0	-3.5	-2.9	-2.2	-1.0	-0.9	-0.7
	IMF	r	-4.2	-3.3	-2.7	-2.2	-1.1	-0.7	-0.7
	Brexit Advocate		-4.6	-3.4	-3.2	-1.1	-0.7	-0.7	n/a
<b>Current Account</b> (% of GDP)	OBR	r	-5.4	-5.7	-5.0	-4.2	-3.4	-2.8	-2.7
	IMF	r	-5.4	-5.9	-4.3	-3.9	-3.7	-3.8	-3.8
	Brexit Advocate		-5.5	-4.6	-4.3	-3.5	-2.4	-1.7	n/a
<b>Merchandise Trade Balance</b> (% of GDP)	OBR	r	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	IMF	p	-6.7	-6.8	-7.0	-7.0	-7.0	-7.1	n/a
	Brexit Advocate		n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>£ effective rate</b> (2015 = 100)	OBR **	r	91.4	81.9	74.2	74.1	73.9	73.8	73.6
	IMF		n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Brexit Advocate		91.6	89.8	88.2	86.8	87.4	86.1	n/a

p – Pre-referendum forecast; r – Post-referendum

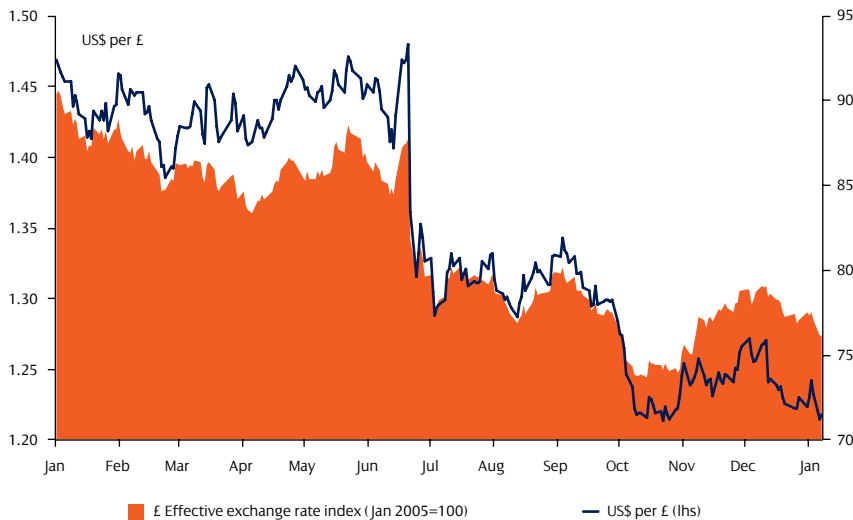
\*\* Figures rebased to 2005 by WMEF

Source: OBR, IMF, BoE & WMEF

Whilst the forecasts provided by institutions that advocated remaining in the EU are predominantly pessimistic, that of the Brexit advocate predicts notably faster growth towards the end of the decade. Interestingly, the Brexit advocate predicts a smaller current account deficit in spite of a stronger currency by the end of the period. The immediate impact of the leave vote was reflected in a significant sharp drop in PMIs for July. However, subsequent economic data releases, including PMIs, over the second half of 2016 are indicative of robust output performance in the context of the earlier negativity. Obviously, this is in part a reflection of the fact that the actual Brexit process has yet to commence and the actuality of exit is a minimum of 24 months away, if not longer.

Furthermore, whilst a March 2017 triggering of Article 50 may precipitate a further bout of financial market volatility, real economic growth momentum may be sustained as the existing trading arrangements remain in place and manufacturing should be boosted by further Sterling weakness. This, however, does not mean that there will be no negative consequences of Britain exiting the EU: far from it if new potentialities are not successfully exploited. The scope for policy initiatives to ameliorate any downside factors is perhaps greater than many envisage.

STERLING PERFORMANCE 2016-17



Source: BoE & WMEF

The precipitous depreciation of Sterling on the night of the Referendum, and its continued erosion since, has been the most visible manifestation of the vote to leave the EU. There are now signs that the Sterling depreciation is having a positive effect on the real economy, with evidence of revived demand from export markets. Nevertheless, the persistent and large current account deficit remains a significant macroeconomic risk and will take time to close, leaving the UK vulnerable to sudden shifts in market sentiment during the interim.

The major defining feature of the UK's current account over the past five years has been the deterioration of the primary income balance. Broadly speaking, this measures investment income from abroad minus the proceeds paid out to foreigners on UK assets that they own. Whilst the UK's trade balance has been in deficit since 1997 (and has actually improved slightly since the financial crisis in 2008), the primary income balance has gone from a surplus of over 1% of GDP in 2011 to a deficit of 2% in 2015. This accounts for around 80% of the total deterioration in the UK's current account since 2011.



Clearly there are a number of factors affecting the return on investment income, many of which are beyond the control of the UK government. In contrast, steps can be taken to improve the merchandise trade balance by endeavouring to make UK businesses more competitive. As discussed, transport links for the industrial sector will be key to this. Initiatives enabling companies to access export advice and finance are also of importance. Finally, the depreciation in Sterling should, if sustained, enable greater competitiveness of British exporters as well as enabling some reshoring and import substitution.

In the context of the demand recoveries in global commodities markets from the early part of 2016, the fall of Sterling is likely to tighten price pressures domestically. Most forecasters are, however, anticipating consumer price inflation firming to within a range of 2-3%, although a faster acceleration cannot be discounted if Sterling does not effectively establish a new floor over the course of 2017.

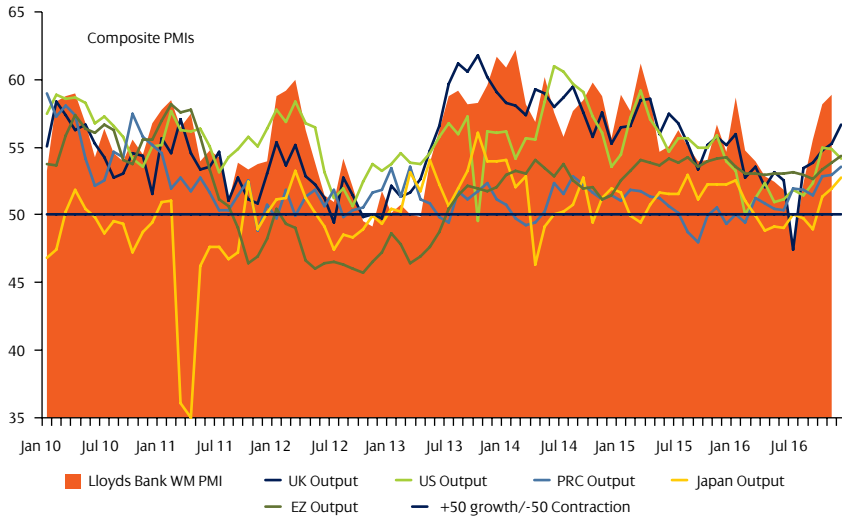
The delay between depreciation and rising prices is to be expected, as any currency movements will take time to feed through to output prices due to existing inventories and hedging strategies. Nevertheless, the first indications that the vote was feeding through into producer prices came in July's PMI, with later PMIs indicating that output prices were following. Official data has subsequently confirmed this picture. With consumer prices firming through 2017, there is a risk of compression of consumers' purchasing power.

The trading terms that Britain does finally agree with the EU will obviously have a profound impact on future economic growth prospects. Nevertheless, even the more negative forecasters are suggesting that growth will reach 2% in 2018, after a dip this year. However, the momentum sustained in the second half of last year suggests that there may be more upside to growth prospects, especially given the more accommodative monetary and fiscal strategies now being pursued.



Photo credit: Express and Star

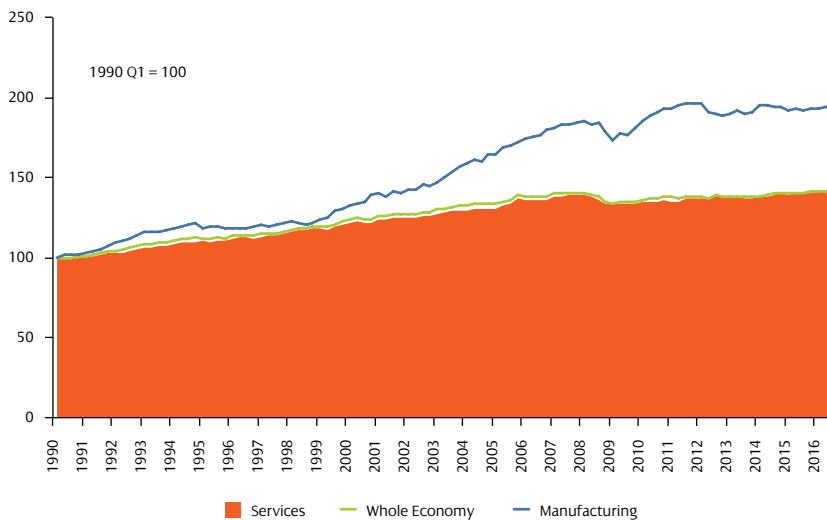
**COMPARATIVE OUTPUT PERFORMANCE**



Source: IHS Markit & WMEF

Indeed, composite output PMIs indicate that the West Midlands, along with the UK as a whole has outperformed other global economic motors since the Eurozone crisis in 2011-12. The relative stagnation of the Eurozone market is one factor that has led to a reduction in its relative importance as an export market, both for the West Midlands and the UK as a whole. Increased spending by the US Federal Government and continuing growth in emerging markets suggest that this trend is likely to continue in future years. A principal concern was lack of clarity over the Brexit traverse. However, the Prime Minister's statement and positive market reaction suggests revived FDI flows. Only when the final British-EU framework is agreed will the impact of Brexit be clear, and that in itself will only be one of a range of factors, including infrastructure, labour market conditions, legal and regulatory issues, that determine a positive FDI decision.

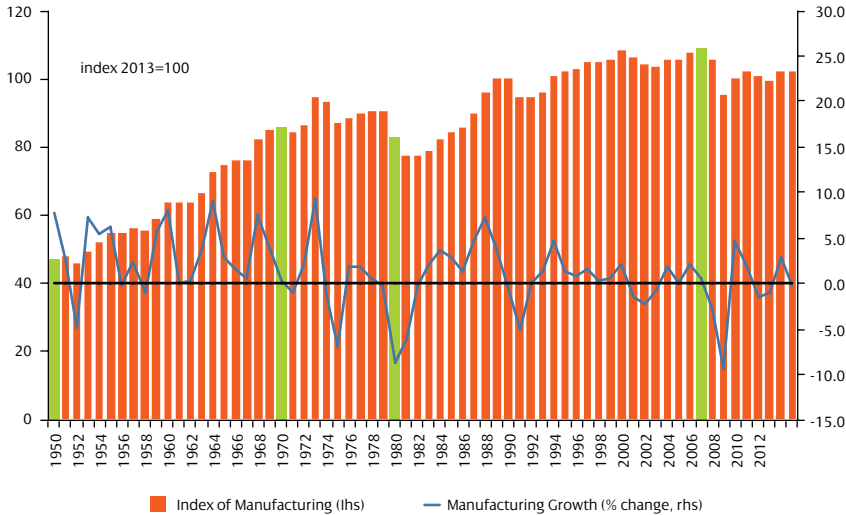
**LABOUR PRODUCTIVITY**



Source: ONS & WMEF

A key aspect of attracting investment into the economy is the level of productivity within sectors. Productivity in the manufacturing sector has out-performed that of the overall economy and notably that of services. ManuServices have also performed strongly. It is important to note that whilst as a proportion of the economy manufacturing has declined, from 17.1% in 1997 to 9.8% of GDP in 2015, in absolute terms output has continued to grow as the sector has shifted from a labour-intensive to a capital-intensive structure and orientation.

#### MANUFACTURING PERFORMANCE



Source: ONS & WMEF

Whilst there is uncertainty over the magnitude of any Brexit-related economic impact, it is not axiomatic that Brexit will have a negative economic impact on Britain. Ultimately, it is the policy decisions of the UK government that will determine future growth. As such, investment in infrastructure throughout the English regions will be critical to the success of the British economy in the post-Brexit period. Rebalancing the UK economy (spatially, sectorally and in terms of closing the current account deficit) will require alleviating transport bottlenecks and improving broadband infrastructure. Equally important will be targeted investment in education.

In the event of such increased investment, together with an accommodative monetary and fiscal stance, it is feasible that economic growth in the UK economy will surprise on the upside. Alleviating transport bottlenecks and skills shortages, together with a competitive exchange rate may allow the country's manufacturing sector to blossom, driving enhanced productivity growth. Ultimately, living standards will be determined by Britain's ability to increase and sustain productivity growth: domestic policies to facilitate this will be by far the most important determinants of this.

Initiatives such as HS2 must be combined with improvements to the UK's road network in order to allow manufacturers to access the export markets they need to develop and grow. Likewise, whilst the additional long-haul air freight capacity that will be added by a third runway at Heathrow may prove to be a boon, the long time-lags associated with construction mean that facilitating growth at regional airports will be crucial in the interim.

# The EU Relationship

To date Britain has secured a range of opt-outs from the EU, including from the Schengen Agreement and Monetary Union (the Euro).

In addition, Britain has also secured clarifications on the range of applicability of the Charter of Fundamental Rights of the EU as well as the ability to adopt, on a case-by-case basis, EU legislative programmes encompassing freedom, security and defence. Notwithstanding the fact that the British civil service is one of the most influential in drafting EU agreements, given its bureaucratic heft, range and capacity compared to the vast majority of EU members, its position at present, vis-à-vis the EU, can at best be described as semi-detached. Moreover, their effectiveness may have been eroded as a result of past domestic austerity measures.

## UK CONTRIBUTIONS TO THE EU BUDGET

£ bln	Contribution			Public Sector Receipts	Net Contribution	% of GDP	GDP
	Gross	Rebate	Total				
2009	14.1	-5.4	8.7	-4.4	4.3	0.3	1,482
2010	15.2	-3.0	12.2	-4.8	7.4	0.5	1,558
2011	15.4	-3.1	12.3	-4.1	8.1	0.5	1,618
2012	15.7	-3.1	12.6	-4.2	8.5	0.5	1,655
2013	18.1	-3.7	14.4	-4.0	10.5	0.6	1,713
2014	18.8	-4.4	14.4	-4.6	9.8	0.5	1,792
2015e	17.8	-4.9	12.9	-4.4	8.5	0.5	1,856
2016f	19.6	-4.3	15.3	-4.2	11.1	0.6	1,931
2017f	17.8	-5.6	12.2	-4.3	7.9	0.4	2,011
2018f	18.5	-4.8	13.7	-4.4	9.3	0.4	2,098
2019f	19.7	-5.1	14.6	-4.9	9.8	0.4	2,188
2020f	20.3	-5.5	14.8	-5.1	9.8	0.4	2,288

Source: HoC, OBR, IMF & WMEF

Britain, notwithstanding its relative prosperity compared to other EU member states, has secured a longstanding reduction on its contributions to EU budgets – these are usually determined by various GDP indicators. Moreover, it is not immediately apparent whether this reduction was achieved via an abatement (a notional accountancy balancing item) or an actual funding rebate.

One crucial element of present EU funding flows is that they are often delivered directly to regional institutions. The European Regional Development Fund (ERDF) and European Social Fund (ESF) are particularly important in this regard.

The West Midlands has benefitted substantially from these funding flows, receiving €400m and €372m from the ERDF and ESF respectively in the 2007-13 funding period, with the EU Structural and Investment Funds (ESIF) also having a positive impact on the region.

Key priorities for the WMCA and wider West Midlands regions should include ensuring that these real and officially calculated flows, and the assumed matching equivalents due from Whitehall, continue post-Brexit. Given the centralised nature of funding flows within England, combined with generous fiscal settlements and greater autonomy over spending in devolved nations, there is a real risk of the Midlands losing out vis-à-vis both London and the devolved nations. The Barnett formula, which is based on national rather than regional allocations and also incorporates EU funding flows, will need to be adjusted to provide an equitable settlement for the English regions that the current formulation does not provide.

Whilst work by the WMEF on calculating the WMCA's fiscal position is ongoing, it is clear that the area receives substantially less investment in both infrastructure and education compared to London and the devolved nations. Boosting investment spending in the region could provide a substantial improvement in the tax-take, improving the region's fiscal situation. Similarly, investment in education (particularly in ongoing skills) should be seen as investing in the region's future rather than current spending. If well targeted, such investment could more than pay for itself by boosting incomes and therefore the tax take.

Given the region's strong higher education sector, one area of particular concern is the potential for rapid reduction in funding flows to universities, and additional difficulty in participating in pan-European research programmes. This outcome must be avoided and is likely to be a key ask of government.





# Constitutional Impact

---

The constitutional implications of Brexit, given the size of the British economy and the considerable role it plays within the day-to-day administration and wider strategic development of the EU, will be profound. It will fundamentally alter the political balance of power within the EU. However, given the existing underlying fragility of the economy, how the EU responds will largely determine in what form it evolves in the future.

In the case of the United Kingdom, the Brexit result has exacerbated tensions between the areas that voted remain – London, Scotland and Northern Ireland – and the central government. There is a danger that the government will attempt to ameliorate these areas by intensifying the asymmetry of British devolution by offering them further autonomy. Given the lack of corresponding institutional arrangements for the English Regions, this could put the region at even further disadvantage.

Scotland is already calling for some of the powers that will be repatriated from the EU to be transferred to Edinburgh, which is in addition to a further revision to the calculation of the Barnett Formula, as it currently incorporates EU regional funding allocations. This version of the Barnett Formula already places the West Midlands at a disadvantage as it is calculated nationally (England, Scotland, Northern Ireland and Wales) rather than the reality of the regional structure of the British economy. For instance, increased capital expenditure in London increases the availability of funding for the devolved nations, but reduces the availability for the English regions. The fact that such an archaic formula, developed by Gladstone's Chancellor Goschen to deal with Irish Home Rule in the 1880s, is being used to determine public sector investment flows, exemplifies the iniquities of the existing devolution package. A funding formula needs to be developed that takes into account the real strengths of the economy.

Similarly, repatriation of EU funds and grants should not simply be sent back to the centre, instead, a formal structure that provides for medium-to-long-term funding needs to be established.

Further research by the WMEF is currently being undertaken.

# International Organisations

An additional factor that is due consideration is how Britain continues with membership of various International Treaties and Conventions which have an impact on trade, manufacturing outputs and services operations. Analysis has not been undertaken in regards to what effect this could have on the local economy, other than that confirmation of continued membership of and access to information flows will be maintained. At present it is likely that such interactions are conducted largely via the European Commission.

## UK OFFICIAL PARTICIPATION IN INTERNATIONAL ORGANISATIONS

Potential Regulatory Impact		Potential Economic Impact	
ADB (nonregional member)	G-8	IMSO	PCA
AfDB (nonregional member)	G-10	Interpol	PIF (partner)
Arctic Council (observer)	G-20	IOC	SELEC (observer)
Australia Group	IADB	IOM	SICA (observer)
BIS	IAEA	IPU	UN
Commonwealth	IBRD	ISO	UNCTAD
CBSS (observer)	ICAO	ITSO	UNESCO
Community of Democracies	ICC (national committees)	ITU	UNFICYP
CDB	ICct	ITUC (NGOs)	UNHCR
Council of Europe	ICJ	MIGA	UNMISS
CERN	ICRM	MINUSMA	UNRWA
European-Atlantic Partnership Council	IDA	MONUSCO	UNSC (permanent)
EBRD	IEA	NATO	UPU
ECB	IFAD	NEA	WCO
EIB	IFC	NSG	WHO
ESA	IFRCS	OAS (observer)	WIPO
EU	IGAD (partners)	OECD	WMO
FAO	IHO	OPCW	WTO
FATF	ILO	OSCE	Zangger Committee
G-5	IMF	Pacific Alliance (observer)	
G-7	IMO	Paris Club	

Source: CIA & WMEF

The Government has announced that it will introduce a Great Repeal Bill, which will incorporate EU law into English and Scottish law in order to offset the repeal of the 1972 European Communities Act, and then from 2020 start revising over 45 years of past British legislation.

Similarly, parallel to the Brexit negotiations, the authorities will have to begin the process of confirming an estimated 60 international treaties and protocols, as well as re-establishing any lapsed formal channels of communications. Mapping the extent to which these international agreements impact regional economic performance in an intelligible business-orientated format could be a key benefit to regional exporters post-Brexit.



# Non-Tariff Barriers

## MFN TARIFFS APPLIED BY THE EU ON GOOD TRADE BY SECTOR PRODUCTION

Agriculture, fisheries and forestry	5.60%
Mining and quarrying	0.00%
Food, beverage and tobacco manufacturing	5.00%
Chemical manufacturing	2.20%
Transport equipment	7.20%
Other manufacturing	2.80%

Source: Ottaviano et al (2014), PwC analysis & WMEF

Often the biggest constraint on trade between economies is not so much the actual formal tariffs and the rate at which these are levied (although as can be seen above these can be significant), but the range of non-tariff barriers in place. The WTO, and obviously any future FTAs, have or will need to have rigorous arbitration procedures in place to enable dispute resolution. In addition, clear, transparent and intelligible regional mechanisms to report problems and issues to the Department of International Trade will need to be in place if the region is to effectively articulate its concerns. Simply detailing the range and scope of such Non-Tariff barriers (see below), highlights the depth and complexity of the subject:

### a) Specific Limitations on Trade

- Import Licensing requirements,
- Proportion restrictions of foreign domestic goods (local content requirements),
- Minimum import price limits,
- Fees,
- Embargoes.

### b) Customs and Administrative Entry Procedures

- Valuation systems,
- Anti-dumping practice,
- Tariff Classification,
- Documentation requirements,
- Fees.

### c) Standards

- Standard Disparities,
- Intergovernmental acceptances of testing methods and standards,
- Packaging, labelling and marking.

### d) Government Participation in Trade

- Government Procurement Policies,
- Export subsidies,
- Countervailing duties,
- Domestic assistance programmes.

### e) Charge on Imports

- Prior import deposit subsidies,
- Administrative fees,
- Special supplementary duties,
- Import credit discrimination,
- Variable levies,
- Border taxes.

### f) Others

- Voluntary export restraints,
- Orderly marketing agreements.

# Options

---

See Appendix 2 for details on Britain's current membership status of international EU-related bodies.

The options available to Britain as it leaves the EU will be limited by what the Government concludes the referendum informs them of the electorate's intentions, and what the EU is willing and able to agree. The British government's position may have to be negotiated through Parliament, depending on Supreme Court and possibly European Court rulings, which could limit scope for negotiations and may even force an early general election. More significantly, elections in the EU, particularly in Germany, France and the Netherlands, could ensure that during 2017 the EU negotiating stance shifts, most probably to a more intransigent one.

## European Single Market

Correctly or incorrectly, the British government appears to have concluded that voters' concerns around immigration were a critical factor behind the leave vote, as well as aspects of alienation. If indeed limits on migration prove to be a cornerstone of the British position, then continued membership of the Single Market does not seem feasible. This is because the structure of the Single Market is predicated on the so-called Four Freedoms, namely of Goods, Services, Capital, and either Labour or People. There may be some legal flexibility by focussing on the free movement of labour (Treaty of Lisbon definition) rather than free movement of people (Treaty of Rome definition). Whilst, previously, there may have been scope for this under the variable geometry envisaged under the Treaty of Lisbon, politically, in the EU at present, this would seem to be a non-starter.

## European Customs Union

Similarly, the creation of a distinct Department of International Trade, and with it the implication that Britain wishes to pursue bilateral FTAs, would suggest that full membership of the European Customs Union is not an option. Some form of mediated agreement may be possible, with the current agreement between the Customs Union and Turkey cited as a possible model, particularly given the predominance of industrial goods in Turkey's exports.

The agreement has made Turkey an integral part of the EU's internal markets, allowing manufactured goods to be traded between the two without tariffs or quotas – although Turkey must incorporate EU regulatory standards into Turkish law. However, the original agreement did not encompass sectors such as agriculture, services and public procurement. The fundamental rationale for the agreement was that it was a transitional stage to Turkey becoming a full member of the EU.

It has however been argued that the essential asymmetry of the relationship, with the EU holding the economic and regulatory powers, made the agreement comparable to the Imperial Ottoman Capitulations – Turkey is encouraged to adopt EU regulatory frameworks without being involved in the decision-making process.



Turkey has sought to ameliorate some of the imbalance and have some input into regulatory determination and on European common commercial policy. A further issue is that Turkey must notify the EU of its intentions to conduct FTA negotiations with Non-EU states and the EU can intervene in these negotiations and even annul any FTA. In contrast, where the EU has reached an FTA with a third-party, exports from these economies can enter Turkey via the EU, but without Turkish goods having preferential access to those markets.

Nevertheless, the agreement has undoubtedly contributed to the significant growth of the economy and its increasing openness: exports were equivalent to 59% of GDP in 2014 compared to 11% in 1970, and between the agreement in 1995 and 2014 exports had grown by a multiple of 20.

## WTO

At the completion of the Brexit process, which according to the Government's preferred programme will be by April 2019, it is most probable that Britain will revert to WTO status. This may prove to be more problematic than anticipated given that Britain joined as both an individual member and as part of the European Communities, and WTO rights and obligations are currently allocated to the EU as a whole (see Appendix 2).

However, WTO head Roberto Azevedo has stated that Britain is unlikely to encounter serious disruption of trade during and immediately after Brexit. Although Britain would have to re-negotiate its membership, there would be no discontinuity of membership and he regarded that the process would be relatively straightforward. Nevertheless, it may prove that Britain will not be immediately awarded Most Favoured Nation (MFN) status and that interim arrangements may have to be put in place while reciprocal negotiations take place with the other 160 members of the WTO.

Capacity will have to be developed at least at a national level, if not regional then with regional input, to ensure effective coverage of developments in WTO trade topics.

The bureaucratic scale of the task should not be underestimated. Tariffs are applied on products and services via Harmonised Commodity Description and Coding System of tariff nomenclature, or the Harmonised System (HS). This system is administered by the World Customs Union, and active membership by the Department of Industry and its regional representatives will probably be essential to support the continuous product refinement that takes place daily in manufacturing, particularly given the expansion of Intelligent Manufacturing in the West Midlands. The HS defines all economic output in terms of commodities, products and services, organised into 21 sections, some 96 chapters which are themselves subdivided into close to 5,000 headings and sub-headings.

#### DEVELOPING REGIONAL SPECIALITY & DEPTH: WTO TRADE TOPICS

Goods	
Agriculture	Rules of origin
Agricultural negotiations Cotton	Pre-shipment Inspection
	Safeguard measures
Anti-dumping Rules negotiations	Sanitary & phytosanitary measures
	State trading enterprises
Balance of payments	Subsidies & countervail measures
Customs valuation	Rules negotiations
GATT & the Goods Council	Fisheries subsidies
Goods schedules	Tariffs
Import licensing	Technical barriers to trade
Information Technology Agreement	Textiles
Market access for goods	Trade facilitation
Market access negotiations	Trade-Related Investment Measures
Quantitative restrictions	
Non-tariff measures	
Services	
Services negotiations	Services schedules
Dispute Settlement	
Intellectual Property	
Trade-related Aspects of IP Rights	
Trade Monitoring	
Trade Monitoring Reports	Trade Monitoring Reviews
Other Topics	
Accessions	Electronic Commerce
Building Trade Capacity	Environment
Civil Aircraft	Government Procurement
Competition Policy	Investment Trade
Development	Regional Trade Agreements Regional Trade Agreements Negotiations

Source: WTO & WMEF

The WTO uses these definitions to draw up tariff schedules between trading partners for agricultural and non-agricultural products. Tariffs are broadly applied according to MFN status, WTO applicant economies and Partner economies. The application of tariffs and definition of products and services can often be a competitive environment with states actively attempting to secure advantage.

### **European Economic Area**

Members of the European Economic Area (EEA, see Appendix 2), via the European Free Trade Association (EFTA), have access to the Single Market as a result of their agreement to uphold the Four Freedoms. Additionally, EFTA members make fiscal contributions to the EEA grants scheme designed to reduce social and economic disparities across the EEA, and may also participate in the Trans-European Networks and the ERDF.

Fiscal contributions can be substantial, as is the case for Norway. An advantage of the agreement is that fisheries are excluded, which is of obvious advantage to both Norway and Iceland. However, in a range of other areas, EEA members have to adopt EU laws and regulatory frameworks without having any significant input into their determination. The EEA has also concluded approximately 38 FTAs with Non-EU economies, which could possibly have to be re-negotiated if a new member joined the EFTA.

Given the apparent opposition of the British government to the free movement of labour, membership of the EEA would not seem to be an acceptable option. Moreover, the Norwegian government has indicated its reluctance to accept new members to the EFTA of the economic size and complexity of Britain.

### **Comprehensive Economic & Trade Agreement**

The EU-Canada Comprehensive Economic and Trade Agreement (CETA) has been approved by the member states' Foreign Ministers, despite opposition from the Walloon (regional) Parliament in Belgium, and it is due to go to the European Parliament in February 2017 – although it will still have to be ratified by National Parliaments after that. Negotiations around the deal have been ongoing for seven years, following other trade negotiations which began in 2004, which could give an indication of the time frame of post-Brexit EU negotiations.

The deal involves removing 98% of tariffs from trade between the EU and Canada, and also harmonising recognition of qualifications in regulated professions and Special Geographical Indications. It is claimed that CETA will be worth C\$12bn to Canada and €12bn to the EU. International Trade Secretary Liam Fox has said that the deal will be worth £1.3bn to the UK.

### **Bespoke Bilateral Deal**

The Bespoke Bilateral Deal which Switzerland has with the EU is based on a series of ten treaties, where Switzerland adopts some EU law and pays into the EU budget in order to retain access to the EU Single Market. These caveats to access to the Single Market indicate that the UK would not be able to retain access to the Single Market without retaining the free movement of people.

Swiss referenda have rejected closer ties, most recently the free movement of people in 2014. The Swiss rejection of free movement of people could have jeopardised the entire deal, as the deals are mutually dependent. Enactment of the referendum could have resulted in the so-called guillotine clause being triggered. The referendum result alone led to Switzerland's status being downgraded in Horizon 2020, including the exclusion of Swiss students from the Erasmus programme.

A watered down version of the proposals voted on by the Swiss public in 2014 was approved in December 2016. This, along with the extension of free movement in Switzerland to Croatia is expected to reinstate Switzerland's status. There is mounting antipathy to the Swiss arrangements within the EU, and it seems unlikely that a similar initiative will be pursued with other economic and trade partners.

### **Asymmetric Treaty Arrangement**

Given that none of the above options completely meet the requirements of the British government, without caveats which have been deemed unacceptable, then a new form of trading structure, a "British Option" must be formed.

This should take into account the current opt-outs which Britain has, but also consider the funding flows which are already in place. Given the heavy integration of value-added supply-chains across Britain and the EU and their sensitivity to price shifts, any agreement would have to be designed to both sustain these supply-chains and be mutually beneficial. Tariff levels, if any, established under WTO terms could obviously have an impact.

Development of such an initiative would obviously be an area within which the WMCA and the West Midlands would need to be able to articulate its position.



## Potential Timetables

---

Until Article 50 is triggered by the British government, it is not possible to accurately predict the likely timetable for firstly Brexit, and secondly (and possibly contemporaneously) the negotiations for the post-Brexit trading relationship with the EU. The apparent lack of empathy between the British and the EU does not immediately suggest negotiations will be cordial, and already both sides seem to be attempting to establish their respective negotiating positions via the international media.

The immediate resignation of the then Prime Minister David Cameron, and the subsequent truncated Conservative Party leadership election and succession of Theresa May as Prime Minister, has understandably delayed a British response. The decision to create a specific Department for Exiting the European Union and establishing a Department of International Trade as well as restructuring the Department of Business, Energy and Industrial Strategy has also slowed development of a narrative since the new entities have had to find staff and accommodation.

The Government has, in part, clarified its intentions by announcing that it will trigger Article 50 by the end of March 2017, which should mean that the Brexit process will commence on 1st April at the earliest, and as a result Britain will leave the EU by 1st April 2019. The situation has, however, been further complicated by the fact that legal challenges, over the respective role of Parliament and the scope of the Royal Prerogative, have resulted in the involvement of the Supreme Court, and potentially and ultimately the European Court. This may cause yet further delay some six months after the vote to leave. This is particularly worrisome, as whilst international partners and rivals have already started deploying contingency plans and fiscal strategies in response to Brexit, there does not yet appear to be any guidelines for local authorities and LEPs to work against.

The British government has apparently been in negotiations with the governments and administrations of Scotland, Wales, Northern Ireland and London as well as the Crown Dependencies of Guernsey, Jersey and the Isle of Man. Given the asymmetric structure of devolution in Britain, there is no formal mechanism to involve the English regions. It is therefore welcome that the Secretary of State for Exiting the EU has initiated a formal process that included elected (metropolitan) mayors in some formal committees. In the case of the WMCA its role is just evolving, and the election of a Mayor will not take place until May, after the likely commencement of the Article 50 process.

However, by then the official negotiating position will have been established, and the region will need to establish a route into this process. There is still optimism on the part of the British that trade negotiations can take place contemporaneously with Brexit talks. Nevertheless, the consensus within the EU appears to be increasingly toward holding negotiations consecutively.

Accordingly, provided the various judicial interventions do not extend the current timetable, it seems probable that formal trade talks can start in 2020. Given the usual timeline for trade negotiations average approximately seven years, these can be expected to be concluded by 2029-30 if time for the various Parliamentary ratifications both for Brexit and a trade agreement are built in – with most probably in excess of 60 Parliamentary ratifications required.

**PROBABLE EU PREFERRED FASTTRACK BREXIT TIMETABLE WITHOUT ENGLISH, SCOTTISH OR EUROPEAN JUDICIAL INTERVENTION**

				Month
Mar 2017	Government formal notification to EU triggering Article 50 (including Brexit objectives)			1
	European Commission, in consultation with EU-27, considers response			
May 2017	After EU-27 confirmation European Commission agrees European Council Negotiating Guidelines			3
Jun 2017	British-EU negotiations commence			4
Oct 2018	British-EU negotiations conclude & agree Brexit agreement			19
Nov 2018	EU Parliament considers Brexit ratification, EU-27 also consider Brexit endorsement			20
Feb 2019	EU Parliament ratifies or rejects Brexit, EU-27 ratify or reject Brexit			23
Mar 2019	Conclusion of Article 50 process, Britain leaves EU with or without agreement			24
Apr 2019	With Agreement & 24 month Transitional Trade Treaty	Apr 2019	Article 50 concluded without agreement- legal arbitration on allocation of residual obligations	25
May 2019	Britain-EU Free Trade Agreement negotiations undertaken	May 2019	Britain-EU trade under Emergency WTO provisions	26
		2019	Britain clarifies WTO status & starts establishing protocols for tariff & point of origin regimes	27
Apr 2021	Britain-EU Free Trade Agreement concluded			49
		?	Britain commences negotiations for EU & Non-EU FTAs	?
May 2021	Britain commences negotiations for Non-EU FTAs			50
		?	Britain-EU Free Trade Agreement negotiations conclude	?
?	Britain concludes FTAs with Non-EU	?	Britain-Non-EU FTAs negotiations conclude	?

Source: EU, HoC, CER & WMEF

# Appendix 1: Article 50

---

COUNCIL OF THE EUROPEAN UNION :Brussels, 15 April 2008 (Reference 6655/08)

## **Consolidated versions of the Treaty on European Union and the Treaty on the functioning of the European Union**

### **Article 50**

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.
2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.
3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.
4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.  
  
A qualified majority shall be defined in accordance with Article 238(3) (b) of the Treaty on the Functioning of the European Union.
5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49

Source: Europa

(downloaded 24th July 2016)

## Appendix 2: Current Memberships

### The European Single Market Membership

The European Single market comprises 28 member states of the EU (including Britain) and four Non-EU states (Iceland, Liechtenstein, Norway and Switzerland), with the aim of guaranteeing the so-called Four Freedoms and aims to drive greater economic integration and increased specialisation. The Four Freedoms are the free movement of Goods, Capital, Services and either People or Labour (depending on which treaty interpretation used). Currently it is estimated that half of the trade in goods within the EU are covered by EU harmonisation legislation, and although the single market is seen as a process of continuous refinement and adaptation, there remains significant coverage voids in the goods sector and even greater deficiencies in the harmonisation of services market. This despite the fact that the Maastricht Treaty, that established the single market, was signed in 1992 and integration was pursued through minimum rather than exhaustive harmonisation. Nevertheless, given the economic scale of the Single Market, it now carries considerable prestige and influence – particularly given the European Commission's technical capacity and competencies – within international trade negotiations.

Given the apparent desire of the British authorities to limit free movement of people, if not labour, which currently appears to be unacceptable to most, if not all, of the current EU-27 political establishments, continued membership of the Single Market seems to be precluded.

### The European Customs Union Membership

The European Customs Union comprises 29 members (the current EU plus Monaco) and three states (Andorra, San Marino and Turkey), who enjoy bilateral agreements that provide qualified access to the Customs Union. Some British Crown Dependencies (Guernsey, Jersey and Isle of Man) and UK Sovereign Base Areas (Akrotiri and Dhekelia) are participants in the Customs Union, whilst Gibraltar is not. Originally, Customs Union membership was seen as a prerequisite of membership of the European Economic Community, established by the Treaty of Rome. This has now been superseded by the EU, and evolved through a range of Treaties including Maastricht and most recently Lisbon.

No customs duties are levied on goods moving through the Customs Union territories, and in contrast to a free trade agreement, all members of the Customs Union levy a common external tariff on goods entering the customs area. Given the common tariff system, negotiations with international trade bodies, such as the WTO, are undertaken by the EU as a single entity.

Indeed, the Government's apparent aspirations to establish Free Trade Agreements with a range of Non-EU economies would probably prove impossible if some form of direct membership with the European Customs Union is retained.

## The World Trade Organisation Membership

Establishing single membership status of the WTO, notwithstanding that Britain was a founding member of its predecessor, GATT, may itself prove a byzantine venture and necessarily involve complex negotiations with the EU, which will have to cede entitlements to Britain.

According to analysis by the Geneva-based ICTSD, this is because the EU as an entity comprises 29 WTO members, namely the 28 member states as well as the EU as a legal entity in its own right, but “rights” (namely the ability to export to other WTO members and not to be discriminated against) are bound-up together, as are the “obligations” (namely, the capacity to accept imports from WTO members and similarly not discriminate against these imports).

As a WTO member, the EU has to agree to sustain import duties within specific parameters, including some 100 import quotas with some 20,000 products eligible for customs levies, and these apply to all EU members and importantly across the EU. Additionally, there are single product quota levels that limit the total volume of imports into the EU as a whole. Furthermore, the quota levels of these obligations were last agreed with the WTO in 2004, when the EU comprised 15 members. Whilst the EU has subsequently expanded to 28 member states, negotiations over new quota levels have yet to be concluded and the EU current commitments on tariffs, quotas and subsidies, especially agricultural, are not known outside of the ongoing confidential negotiations between the EU and WTO.

Thus, not only will Britain have to carve out its own entitlements from those of the EU, but it will be doing so against a backdrop of not necessarily fully comprehending the current level of commitments that the EU is negotiating with the WTO, and at what level these are finally likely to be agreed at. The very fact that these bilateral discussions have already extended over a dozen years, is indicative of the type, scale and length of negotiation processes that Britain will have to become adroit at. WTO negotiations are often protracted because the decisions themselves are made on the basis of consensus.

Moreover, other (Non-EU) WTO members will want to have inputs into what the commitment levels of Britain will be, as indeed will many EU states, especially the more agrarian orientated economies. These WTO talks would be taking place concurrently with separate bilateral FTA negotiations, with some cross-referencing only to be expected given that these talks will be taking place with the same states. Moreover, there seems to be some divergence, according to the ICTSD, between the expectations by the government of what WTO entitlements will be available to achieve, and what the current level of EU entitlements imply actual British ones are – a factor that could prove politically problematic for any British government.

# Appendix 3: WMCA June 2016 Referendum – Comparative Results

## JUNE 2016 REFERENDUM: COMPARATIVE RESULTS

		Remain %	Leave %	Leave Majority		Turnout %
				Votes	%	
UK		48.10	51.90	1,269,501	3.80	72.20
of which:	England	46.60	53.40	1,921,410	6.80	73.00
	Scotland	62.00	38.00	-642,869	-24.00	67.20
	Wales	47.50	52.50	82,225	5.00	71.70
	Northern Ireland	55.80	44.20	-91,265	-11.60	62.90
	West Midlands	40.70	59.30	548,512	18.60	72.00
	East Midlands	41.20	58.80	442,443	17.60	74.20

WMCA Relationship	Local Government Area	Electorate	Percentage Turnout	Remain Votes	Leave Votes	Percentage Remain	Percentage Leave	Leave Majority	Percentage Leave Majority	Leave % of Electorate
Constituent	Birmingham	707,293	63.81	223,451	227,251	49.58	50.42	3,800	0.84	32.13
Constituent	Coventry	221,389	69.21	67,967	85,097	44.40	55.60	17,130	11.19	38.44
Constituent	Dudley	244,516	71.71	56,780	118,446	32.4	67.60	61,666	35.19	48.44
Constituent	Sandwell	221,429	66.58	49,004	98,250	33.28	66.72	49,246	33.44	44.37
Constituent	Solihull	160,425	76.06	53,466	68,484	43.84	56.16	15,018	12.31	42.69
Constituent	Walsall	194,729	69.68	43,572	92,007	32.14	67.86	48,435	35.72	47.25
Constituent	Wolverhampton	174,760	67.54	44,138	73,798	37.43	62.57	29,660	25.15	42.23
Non-Constituent	Cannock Chase	75,010	71.47	16,684	36,894	31.14	68.86	20,210	37.72	49.19
Non-Constituent	Nuneaton & Bedworth	93,978	74.35	23,736	46,095	33.99	66.01	22,359	32.02	49.05
Non-Constituent	Redditch	61,038	75.22	17,303	28,579	37.71	62.29	11,276	24.58	46.82
Non-Constituent	Tamworth	56,825	74.18	13,705	28,424	32.53	67.47	14,719	34.94	50.02
Non-Constituent	Telford & Wrekin	124,338	72.15	32,954	56,649	36.78	63.22	23,695	26.44	45.56
Observer	North Warwickshire	49,790	76.27	12,569	25,385	33.12	66.88	12,816	33.77	50.98
Observer	Rugby	74,137	79.03	25,350	33,199	43.30	56.70	7,849	13.41	44.78
Observer	Stratford-on-Avon	98,014	80.82	38,341	40,817	48.44	51.56	2,476	3.13	41.64
Observer	Shropshire	236,788	77.42	78,987	104,166	43.13	56.87	25,179	13.75	43.99
Observer	Warwick	103,099	79.22	47,976	33,642	58.78	41.22	-14,334	-17.56	32.63
LEP-affiliate	Bromsgrove	74,170	79.35	26,252	32,563	44.63	55.37	6,311	10.73	43.90
LEP-affiliate	East Staffordshire	83,558	74.39	22,850	39,266	36.79	63.21	16,416	26.43	46.99
LEP-affiliate	Lichfield	80,369	78.78	26,064	37,214	41.19	58.81	11,150	17.62	46.30
LEP-affiliate	Wyre Forest	77,878	74.05	21,240	36,392	36.85	63.15	15,152	26.29	46.73
Other WM Region	Herefordshire	138,247	78.36	44,148	64,122	40.78	59.22	19,974	18.45	46.38
Other WM Region	Stoke-on-Trent	179,010	65.74	36,027	81,563	30.64	69.36	45,536	38.72	45.56
Other WM Region	Newcastle-under-Lyme	92,816	74.30	25,477	43,457	36.96	63.04	17,980	26.08	46.82
Other WM Region	South Staffordshire	85,777	77.81	23,444	43,248	35.15	64.85	19,804	29.69	50.42
Other WM Region	Stafford	99,612	77.83	34,098	43,386	44.01	55.99	9,288	11.99	43.55
Other WM Region	Staffordshire Moorlands	79,347	75.36	21,076	38,684	35.27	64.73	17,608	29.46	48.75
Other WM Region	Malvern Hills	60,217	80.61	23,203	25,294	47.84	52.16	2,091	4.31	42.00
Other WM Region	Worcester	73,516	73.85	25,125	29,114	46.32	53.68	3,989	7.35	39.60
Other WM Region	Wychavon	94,497	80.88	32,188	44,201	42.14	57.86	12,013	15.73	46.78

Source: Electoral Commission, WMCA & WMEF

# Appendix 4: WMCA Comparative Economic Performance

## JUNE 2016 REFERENDUM: COMPARATIVE ECONOMIC STRENGTHS

		NVQ4+	Unemployment Rate	Claimant Count 1+ years	GDHI	GVA per Worker	Weekly Wage Growth
		% change 2010-2015	% change 2010-2015	% change Oct2010- Oct2016	% change 2010-2014	% change 2010-2014	% change 2010-2016
		* = 2010-2013		* = proxy figure used		* = proxy figure used	
		excl. overtime					
UK		5.80	-2.40	13.60	5.65	N/A	9.81
of which:	England	5.80	-2.50	13.30	7.38	10.98	9.16
	Scotland	7.70	-1.90	14.70	7.34	10.02	10.65
	Wales	5.30	-2.40	17.40	9.25	11.13	10.83
	Northern Ireland	2.60	-1.00	10.60	7.80	N/A	11.05
	West Midlands	5.20	-3.00	15.50	9.67	10.88	10.27
	East Midlands	4.70	-2.70	13.80	9.24	13.45	5.91
WMCA Relationship	Local Government Area						
Constituent	Birmingham	7.50	-4.10	16.60	8.32	5.54	10.08
Constituent	Coventry	0.60	-3.50	9.30	7.47	10.46	4.66
Constituent	Dudley	3.00	-2.50	19.90	6.79	16.08	16.90
Constituent	Sandwell	2.30	-6.20	17.20	11.65	9.42	10.28
Constituent	Solihull	3.20	-3.50	14.10	5.88	4.54	15.69
Constituent	Walsall	3.00	-3.00	10.20	6.53	11.18	9.69
Constituent	Wolverhampton	5.00	-1.70	11.80	6.23	20.25	5.78
Non-Constituent	Cannock Chase	8.20	-1.40	13.80	10.02*	6.20*	15.44
Non-Constituent	Nuneaton & Bedworth	9.70	-5.90	14.30	2.34*	13.47*	9.89
Non-Constituent	Redditch	5.40	0.70	8.80	6.87*	16.21*	1.99
Non-Constituent	Tamworth	10.00	-7.50	-4.40	10.02*	6.20*	21.37
Non-Constituent	Telford & Wrekin	2.40	-2.10	14.50	10.68	16.78	16.32
Observer	North Warwickshire	6.00	2.50*	6.60	2.34*	13.47*	1.16
Observer	Rugby	8.30	-6.20	21.60	2.34*	13.47*	13.46
Observer	Stratford-on-Avon	9.70	-2.90	5.20	2.34*	13.47*	16.74
Observer	Shropshire	6.70	-0.40	13.20	4.44	13.06	4.32
Observer	Warwick	13.60	-2.80	6.10	2.34*	13.47*	15.43
LEP-affiliate	Bromsgrove	7.60	-4.80	17.70	6.87*	16.21*	16.12
LEP-affiliate	East Staffordshire	-3.70	-3.10	6.70	10.02*	6.20*	7.95
LEP-affiliate	Lichfield	4.30	-1.60	0.90	10.02*	6.20*	2.10
LEP-affiliate	Wyre Forest	10.40	-2.00	11.50	6.87*	16.21*	11.07
Other WM Region	Herefordshire	6.10	-1.90	5.30	5.04	9.99	12.01
Other WM Region	Stoke-on-Trent	6.50	-1.90	14.00	8.58	19.48	6.71
Other WM Region	Newcastle-under-Lyme	-4.70	-4.00	12.30	10.02*	6.20*	8.96
Other WM Region	South Staffordshire	12.60	-0.80	15.60	10.02*	6.20*	-3.19
Other WM Region	Stafford	5.80	-3.90	4.10	10.02*	6.20*	-3.31
Other WM Region	Staffordshire Moorlands	-14.50	0.90	11.70	10.02*	6.20*	5.94
Other WM Region	Malvern Hills	5.30	-1.7*	14.70	6.87*	16.21*	1.15
Other WM Region	Worcester	9.60	-1.20	15.20	6.87*	16.21*	4.57
Other WM Region	Wychavon	8.70	-0.90	11.40	6.87*	16.21*	13.11

Source: Electoral Commission, WMCA, Nomis &amp; WMEF

## Appendix 5: WMCA Basic Data

### WMCA BASIC DATA

Constituent Members	2010	2012	2014	
GVA (£ bln)	48.97	52.10	55.54	
Annual % Growth	4.40	3.77	2.58	
GVA per capita (£)	18,055	18,859	19,778	
GVA per EA 16-65 population (£)	40,330	42,008	43,891	
Economic Structure, GVA (£ mln):			2013	
Production	36,173	38,998	44,379	
Distribution	23,166	24,838	25,730	
Services	27,017	29,488	30,773	
Society	26,153	26,894	28,235	

	WMCA	WMCA	WM	GB
	Numbers	%	Numbers	Numbers
Total population (2015)				
All People	2,833,600		5,751,000	63,258,400
Males	1,399,800		2,844,800	31,165,300
Females	1,433,800		2,906,200	32,093,100
Population aged 16-64 (2015)				
All People Aged 16-64	1,774,600	62.63	62.30	63.34
Males Aged 16-64	883,700	63.13	63.05	64.05
Females Aged 16-64	890,900	62.14	61.57	62.65

Employment and unemployment (Jul 2015-Jun 2016) – All People	Numbers	%	%	%
Economically Active	1,250,700	70.30	75.20	77.90
In Employment	1,147,500	64.50	70.60	73.80
Employees	1,007,800	56.70	61.50	63.10
Self Employed	134,600	7.60	8.80	10.30
Unemployed	103,300	8.30	6.00	5.20

Economic inactivity (Jul 2015-Jun 2016) – All People	Level	%	%	%
Student	160,500	30.40	27.00	26.10
Looking After Family/Home	157,900	29.90	26.20	24.70
Temporary Sick	14,500	2.70	2.70	2.30
Long-Term Sick	110,500	20.90	22.10	22.50
Discouraged	2,800	0.50	0.60	0.40
Retired	42,900	8.10	12.40	13.60
Other	38,900	7.40	9.10	10.50
Wants A Job	91,300	17.30	20.30	24.50
Does Not Want A Job	436,800	82.70	79.70	75.50

Employment by occupation (Jul 2015-Jun 2016)	Numbers	%	%	%
Soc 2010 Major Group 1-3				
1 Managers, Directors And Senior Officials	91,100	7.70	9.70	10.50
2 Professional Occupations	209,700	17.80	17.70	20.00
3 Associate Professional & Technical	144,600	12.30	12.70	14.20
Soc 2010 Major Group 4-5				
4 Administrative & Secretarial	128,300	10.90	10.80	10.50
5 Skilled Trades Occupations	128,900	11.00	11.50	10.50
Soc 2010 Major Group 6-7				
6 Caring, Leisure And Other Service Occupations	119,900	10.20	9.40	9.20
7 Sales And Customer Service Occs	91,400	7.80	7.40	7.50
Soc 2010 Major Group 8-9				
8 Process Plant & Machine Operatives	108,000	9.20	8.10	6.40
9 Elementary Occupations	146,600	12.50	12.40	10.70

Qualifications (Jan 2015-Dec 2015) – Population aged 16-60	Level	%	%	%
NVQ4 And Above	499,800	28.30	31.20	37.10
NVQ3 And Above	807,200	45.70	49.30	55.80
NVQ2 And Above	1,114,800	63.10	67.90	73.60
NVQ1 And Above	1,319,100	74.70	79.90	84.90
Other Qualifications	158,400	9.00	7.10	6.50
No Qualifications	288,300	16.30	13.00	8.60

Source: NOMIS, ONS,DWP,DFE &amp; WMEF

Data 2015 unless stated



**WMCA BASIC DATA CONTINUED**

Constituent Members	WMCA	WMCA	WM	GB
Claimant count by age (September 2016)	Level	%	%	%
Aged 16+	62,295	2.79	1.81	1.43
Aged 16 To 17	20	0.03	0.02	0.05
Aged 18 To 24	14,290	4.72	3.61	2.91
Aged 18 To 21	8,325	4.95	3.88	3.15
Aged 25 To 49	34,470	3.61	2.43	1.84
Aged 50+	13,490	1.50	0.90	0.77
Note: % is number of claimants as a proportion of resident population of the same age				
Working-age client group – main benefit claimants May 2016)	Numbers	%	%	%
Total Claimants	272,000	15.20	12.70	11.50
By Statistical Group				
Job Seekers	47,710	2.70	1.70	1.30
ESA And Incapacity Benefits	128,230	7.20	6.40	6.20
Lone Parents	29,150	1.60	1.30	1.00
Carers	41,880	2.30	2.00	1.70
Others On Income Related Benefits	5,540	0.30	0.20	0.20
Disabled	16,130	0.90	0.90	0.90
Bereaved	3,360	0.20	0.20	0.20
Main Out-Of-Work Benefits	210,630	11.80	9.60	8.70
Jobs density (2014) – ratio of total jobs to population aged 16-64	Jobs	Density	Density	Density
Jobs Density	1,331,000	0.75	0.78	0.82
Employee jobs (2015)	Employee Jobs	%	%	%
Total Employee Jobs	1,200,967			
Full-Time	847,924	70.60	69.70	69.12
Part-Time	353,043	29.40	30.30	30.88
Employee Jobs By Industry	Jobs	%	%	%
A: Agriculture, Forestry and Fishing	433	0.00	0.90	0.70
B: Mining And Quarrying	141	0.00	0.00	0.20
C: Manufacturing	135,639	11.30	12.00	8.20
D: Electricity, Gas, Steam And Air Conditioning Supply	7,337	0.60	0.50	0.40
E: Water Supply; Sewerage, Waste Management & Remediation	8,826	0.70	0.70	0.70
F: Construction	57,563	4.80	5.20	4.50
G: Wholesale And Retail Trade; Repair Of Motor Vehicles	192,039	16.00	16.80	15.70
H: Transportation And Storage	68,271	5.70	5.90	4.60
I: Accommodation And Food Service Activities	65,691	5.50	6.20	7.10
J: Information And Communication	29,055	2.40	2.60	4.20
K: Financial And Insurance Activities	41,008	3.40	2.60	3.50
L: Real Estate Activities	18,912	1.60	1.50	1.70
M: Professional, Scientific And Technical Activities	86,027	7.20	6.60	8.30
N: Administrative And Support Service Activities	112,063	9.30	8.30	8.80
O: Public Administration And Defence; Compulsory Social Security	49,017	4.10	3.90	4.40
P: Education	126,661	10.50	9.40	9.20
Q: Human Health And Social Work Activities	153,223	12.80	12.50	13.20
R: Arts, Entertainment And Recreation	23,074	1.90	2.30	2.40
S: Other Service Activities	25,986	2.20	2.10	2.00
UK Business Counts (2016)	Enterprises	Numbers	%	%
Micro (0 To 9)		71,850	87.88	88.68
Small (10 To 49)		8,060	9.86	9.30
Medium (50 To 249)		1,480	1.81	1.63
Large (250+)		365	0.45	0.38
Total		81,755	100.00	100.00
Local Units	Numbers	%	%	%
Micro (0 To 9)		80,990	81.65	83.18
Small (10 To 49)		14,250	14.37	13.42
Medium (50 To 249)		3,415	3.44	2.94
Large (250+)		540	0.54	0.45
Total		99,195	100.00	100.00
Business Entities (2016)	Turnover Size Band (£'000s)	Numbers	%	%
Total		81,755	100.00	100.00
0-49		13,435	16.43	17.94
50-99		20,205	24.71	23.94
100-249		23,955	29.30	29.30
250-499		9,930	12.15	12.14
500-999		5,975	7.31	7.30
1000-1999		3,660	4.48	4.27
2000-4999		2,500	3.06	2.85
5000-9999		1,020	1.25	1.08
10,000-49,999		805	0.98	0.89
50,000+		270	0.33	0.28

Source: NOMIS, ONS, DWP, DFE &amp; WMEF

Data 2015 unless stated

## Appendix 6: West Midlands Trade Data

### WEST MIDLANDS MERCHANDISE EXPORT PERFORMANCE (£M)

	Country	2015	2014	2013	% of Total Exports 2015		% change 2013-2015	Export Penetration 2015
1	USA	5416.915	4169.323	4016.651	18.70		34.86	0.36
2	PRC	3690.292	5296.725	4001.108	12.74		-7.77	0.33
3	FRG	2963.907	2609.879	2477.959	10.23		19.61	0.43
4	France	1814.985	1856.866	1843.188	6.27		-1.53	0.48
5	Irish Republic	1191.671	1147.341	982.926	4.11		21.24	2.55
6	Italy	1083.451	976.827	916.955	3.74		18.16	0.40
7	Netherlands	1065.074	1125.176	1141.004	3.68		-6.65	0.32
8	Spain	972.246	694.358	693.551	3.36		40.18	0.48
9	UAE	745.185	637.213	583.265	2.57		27.76	0.58
10	Australia	700.865	556.691	566.436	2.42	Top 10 = 63.41	23.73	0.51
11	Belgium	670.267	688.758	646.831	2.31		3.62	0.27
12	RoK	529.396	418.354	322.485	1.83		64.16	0.19
13	Canada	487.391	464.595	412.17	1.68		18.25	0.17
14	Russia	456.389	804.895	901.648	1.58		-49.38	0.36
15	Sweden	422.02	530.662	507.863	1.46		-16.90	0.47
16	Turkey	362.697	347.536	393.871	1.25		-7.91	0.27
17	Poland	358.558	365.593	312.323	1.24		14.80	0.28
18	Saudi Arabia	329.859	258.28	243.244	1.14		35.61	0.30
19	Switzerland	328.357	343.208	342.443	1.13		-4.11	0.20
20	RSA	287.473	259.243	375.415	0.99	Top 20 = 77.07	-23.43	0.49
21	India	280.288	275.4	267.726	0.97		4.69	0.11
22	Japan	265.589	264.266	277.147	0.92		-4.17	0.06
23	Austria	257.79	256.306	258.568	0.89		-0.30	0.25
24	Brazil	251.614	280.949	373.73	0.87		-32.67	0.21
25	Hong Kong	237.723	218.846	235.825	0.82		0.80	0.06
26	Singapore	229.756	217.125	228.799	0.79		0.42	0.12
27	Denmark	208.509	246.258	278.709	0.72		-25.19	0.37
28	Qatar	201.486	154.294	147.352	0.70		36.74	0.94
29	Kuwait	171.435	134.935	115.64	0.59		48.25	0.82
30	Czech Republic	164.004	174.65	159.44	0.57	Top 30 = 84.39	2.86	0.18
31	Norway	148.577	213.498	183.429	0.51		-19.00	0.30
32	Mexico	130.007	130.699	111.345	0.45		16.76	0.05
33	Portugal	128.002	120.423	135.706	0.44		-5.68	0.29
34	Romania	123.095	105.762	96.935	0.42		26.99	0.27
35	Other Asia and Oceania	118.987	165.804	171.502	0.41		-30.62	N/A
36	Finland	112.207	133.996	129.343	0.39		-13.25	0.29
37	Hungary	111.77	109.382	122.072	0.39		-8.44	0.18
38	Other Western Europe	104.767	77.972	70.116	0.36		49.42	N/A
39	Egypt	87.524	49.165	34.507	0.30		153.64	0.22
40	Israel	85.924	91.481	127.992	0.30	Top 40 = 88.11	-32.87	0.20
41	Thailand	85.547	104.683	88.094	0.30		-2.89	0.06
42	Oman	83.564	83.265	65.315	0.29		27.94	0.44
43	New Zealand	79.176	76.748	65.024	0.27		21.76	0.33
44	Other Middle East and North Africa	76.864	83.266	83.736	0.27		-8.21	N/A
45	Other Eastern Europe	73.797	77.621	83.138	0.25		-11.24	N/A
46	Morocco	71.307	95.349	57.036	0.25		25.02	0.29
47	Greece	62.385	62.929	48.6	0.22		28.36	0.20
48	Slovakia	60.554	57.309	61.595	0.21		-1.69	0.13
49	Bahrain	60.512	39.25	37.347	0.21		62.03	0.93
50	Taiwan	60.441	61.124	51.403	0.21	Top 50 = 90.41	17.58	0.04

## WEST MIDLANDS MERCHANDISE EXPORT PERFORMANCE (EM) (CONTINUED)

	Country	2015	2014	2013	% of Total Exports 2015		% change 2013-2015	Export Penetration 2015
51	Bulgaria	55.262	47.126	34.527	0.19		60.05	0.29
52	Chile	53.901	45.123	58.322	0.19		-7.58	0.13
53	Nigeria	49.588	65.313	63.243	0.17		-21.59	0.16
54	Lebanon	49.143	46.316	46.483	0.17		5.72	0.41
55	Other Latin America and the Caribbean	41.821	41.021	51.022	0.14		-18.03	N/A
56	Malta	39.57	31.25	28.253	0.14		40.06	1.05
57	Ukraine	39.548	51.037	108.027	0.14		-63.39	0.17
58	Other Sub-Saharan Africa	38.772	36.364	48.153	0.13		-19.48	N/A
59	Cyprus	38.259	33.812	84.351	0.13		-54.64	1.05
60	Slovenia	37.71	35.726	33.879	0.13	Top 60 = 91.84	11.31	0.19
61	Pakistan	36.633	45.423	38.768	0.13		-5.51	0.13
62	Indonesia	35.573	49.307	49.633	0.12		-28.33	0.04
63	Philippines	34.886	32.333	29.011	0.12		20.25	0.08
64	Colombia	30.606	21.941	23.684	0.11		29.23	0.09
65	Ghana	26.982	24.687	40.231	0.09		-32.93	0.31
66	Luxembourg	26.917	51.974	55.568	0.09		-51.56	0.18
67	Jordan	26.431	18.684	23.955	0.09		10.34	0.20
68	Algeria	25.999	57.828	82.796	0.09		-68.60	0.08
69	Kenya	25.082	25.147	30.06	0.09		-16.56	0.24
70	Estonia	23.49	22.159	32.917	0.08	Top 70 = 92.79	-28.64	0.25
71	Croatia	20.701	17.829	7.417	0.07		179.10	0.15
72	Iceland	20.129	14.461	11.894	0.07		69.24	0.58
73	Costa Rica	16.513	13.359	14.681	0.06		12.48	0.16
74	Panama	15.927	12.589	13.782	0.05		15.56	0.13
75	Lithuania	14.741	17.538	18.789	0.05		-21.54	0.08
76	Tunisia	12.456	14.591	11.919	0.04		4.51	0.09
77	Angola	12.295	28.776	22.314	0.04		-44.90	0.09
78	Argentina	11.821	13.394	23.198	0.04		-49.04	0.03
79	Tanzania	11.78	15.057	16.44	0.04		-28.35	N/A
80	Dominican Rep	10.164	6.39	5.649	0.04	Top 80 = 93.26	79.93	N/A
81	Latvia	8.586	9.078	10.555	0.03		-18.65	0.09
82	Trinidad:Tobago	7.879	9.863	8.903	0.03		-11.50	N/A
83	Zimbabwe	6.835	5.82	6.903	0.02		-0.99	0.25
84	Mauritius	6.134	6.294	5.026	0.02		22.05	0.20
85	Uruguay	5.956	8.301	7.107	0.02		-16.20	0.10
86	Ivory Coast	5.461	3.299	2.693	0.02		102.78	N/A
87	Ethiopia	4.927	4.09	3.944	0.02		24.92	0.03
88	Jamaica	3.73	3.021	4.473	0.01		-16.61	0.12
89	Libya	3.671	8.915	11.807	0.01		-68.91	0.02
90	Iran	3.602	2.065	2.896	0.01	Top 90 = 93.44	24.38	N/A
91	Ecuador	3.398	4.216	6.053	0.01		-43.86	0.02
92	Cameroon	2.892	2.331	4.563	0.01		-36.62	0.07
93	Venezuela	2.766	2.27	5.106	0.01		-45.83	N/A
94	Barbados	2.348	1.637	1.62	0.01		44.94	0.22
95	Guyana	1.817	1.419	1.773	0.01		2.48	0.19
96	Namibia	1.645	1.317	1.236	0.01		33.09	0.03
97	South Sudan	0.573	0.127	0.184	0.00		211.41	N/A
98	Botswana	0.398	0.352	0.58	0.00		-31.38	0.01
99	Syria	0.127	0.703	0.461	0.00		-72.45	N/A
100	Other North America	0.061	0.225	0.488	0.00	Top 100 = 93	-87.50	N/A
	<b>Total</b>	<b>28965.71</b>	<b>28726.18</b>	<b>27052.39</b>	<b>100.00</b>		<b>7.07</b>	<b>0.26</b>
	<b>EU</b>	<b>12035.73</b>	<b>11528.97</b>	<b>11119.82</b>	<b>41.55</b>		<b>8.24</b>	<b>0.40</b>

Source: HMRC, UNCTAD &amp; WMEF

## Appendix 7: Theresa May's 12 Objectives for Brexit

---

1. Provide as much certainty as possible, wherever possible, about the process of leaving the EU.

---
2. Control of our own laws. Thus, Britain will leave the jurisdiction of the European Court of Justice: all laws will be made in Westminster, Edinburgh, Cardiff and Belfast and will be interpreted by judges in the UK.

---
3. Strengthen the Union. The Government has set up a Joint Ministerial Committee and ministers from the UK's devolved administrations can contribute to the process of planning the exit of the EU.

---
4. Maintain the Common Travel Area with the Republic of Ireland.

---
5. Control of immigration.

---
6. Protect the rights of EU nationals living in Britain in exchange for protection of the rights of British nationals living in the EU.

---
7. Protect workers' rights.

---
8. Free trade with European markets. The UK will pursue a Free Trade Agreement with the remaining members of the EU leading to the freest possible trade with the EU.

---
9. New trade agreements with other countries.

---
10. The best place for science and innovation. Aiming for agreement to continue collaboration with European Partners on science, research and technology initiatives.

---
11. Cooperation in the fight against crime and terrorism. Work closely with European allies on security matters.

---
12. A smooth, orderly Brexit. This will involve a phased process of implementation.

---

# Glossary

Annual Population Survey (APS)	A survey of households in the UK covering employment, housing, education and other social factors.
Article 50	Article 50 of the Treaty of the European Union sets out how a member state withdraws from the European Union.
British Chambers of Commerce	An organisation which represents the interests of British Businesses.
CBI	An organisation which represents the interests of British Businesses.
European Council	A council comprising the heads of government for all member states and the President of the European Commission.
European Customs Union	A trade bloc which includes all members of the European Union, Monaco and territories of the UK which are not members of the European Union.
European Single Market	A market area within the European Union which seeks to ensure the "four freedoms" of goods, capital, services and people/labour.
European Union (EU)	A political and economic union of 28 member states, located in Europe.
Free Trade Agreement (FTA)	An agreement between two or more countries to reduce barriers to trade.
Hidden Unemployment	Unemployment among workers who are officially registered as economically inactive.
Intelligent Manufacturing	The next generation of manufacturing and processing technologies.
Internet Protocol version 6 (IPv6)	The most recent version of the Internet Protocol (IP) which provides location and identification information for internet users.
Local Authority (LA)	An area of local government in the UK.
ManuServices	Service sector businesses which are wholly dependent on the manufacturing sector.
Merchandise Exports	Exports of goods, not including services.
Purchasing Managers Index (PMI)	An index of business performance based on surveys conducted by country, region and industry.
Small and Medium Enterprises (SMEs)	A business which employs fewer than 250 people
Structural Unemployment	Unemployment of workers within a specific industry, usually as a result of a country's economy restructuring.
Trans Pacific Partnership (TPP)	A free trade agreement between 12 Pacific rim countries, including Australia, Canada, New Zealand and the USA.
Transatlantic Trade and Investment Partnership (TTIP)	Proposed trade agreement between the European Union and the United States.
West Midlands	A region of Britain which includes Birmingham, the Black Country, Herefordshire, Shropshire, Staffordshire, Warwickshire and Worcestershire.
West Midlands Combined Authority (WMCA)	An area of the West Midlands comprising 7 constituent members (Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton) and a number of non-constituent (Cannock Chase, Nuneaton and Bedworth, Redditch, Tamworth and Telford and Wrekin) and affiliate members.
World Trade Organisation (WTO)	An international organisation which deals with the rules of trade between nations.

## Authors & Contributors:

---

### **West Midlands Economic Forum**

Professor Paul Forrest, Head of Research

Rebecca Jones, Economist

David Hearne, Economist

Mitchell Forrest, Research Assistant

### **Birmingham City University**

Professor Julian Beer, Deputy Vice Chancellor

Jude Pearson, Research, Innovation & Enterprise

Professor Alex de Ruyter, Centre for Regional Economic Development and Investment

Professor Jon Yorke, Centre for Brexit Studies

Dr Haydn Davies, Centre for Brexit Studies

### **Black Country Chamber of Commerce**

Corin Crane, Chief Executive

This discussion paper is a result of a wide range of consultations, discussions and presentations held across the West Midlands in the run-up to the Referendum and in the Brexit period since.

The paper is not intended to advocate one particular strategy, but instead is intended to provide West Midlands institutions and enterprises with an introductory guide to the realistic options available and what needs to be addressed at enterprise, LGA and wider regional levels if Brexit is to be a success for the West Midlands.

As a discussion paper, it is intended to generate debate and consideration, and the views do not necessarily reflect the views of the main partners who requested this study, namely the Black Country Chamber of Commerce and Birmingham City University and its Centre for Brexit Studies, or of the various parties involved in the discussions.

The analysis does, however, reflect the views of the authors on the practical opportunities available to the region. Notably it does not advocate either maintaining or retaining membership of the European Single Market or European Customs Union, but considers how negotiations at the present stage can be expected to evolve and what potentialities may become available for the region.



## CONTACT DETAILS

---

### Centre for Brexit Studies

Professor Alex de Ruyter  
Alex.deRuyter@bcu.ac.uk  
0121 202 4205

---

### Black Country Chamber of Commerce

Lisa Bird  
lisabird@blackcountrychamber.co.uk  
07810 377 833

---

### West Midlands Economic Forum

Rebecca Jones  
mail@westmidlandseconomicforum.co.uk  
07703 735 408

---

#### **Disclaimer:**

*The analysis presented in this report accurately represents the personal assessment of the analyst(s) and no part of the compensation of the analyst(s) was, or will be directly or indirectly related to the inclusion of specific views in this report. Further information is available on request. The information contained, and any views expressed, herein are based on data currently available within the public domain. The contents of this Report are not a substitute for specific advice and should not be relied on as such. Accordingly, whilst every care has been taken in the preparation of this publication, no representation or warranty is made or given in respect of its contents and no responsibility is accepted for the consequences of any reliance placed on it by any person.*

*The West Midlands Economic Forum is a neutral, independent forum bringing together representatives of the public, private and voluntary sectors to evaluate real trends in the local economy.*



West Midlands Economic Forum  
8 Beaufort Way, Aldridge, WS9 0HJ  
mail@westmidlandseconomicforum.co.uk  
www.midlandseconomicforum.co.uk  
Registered in Cardiff, number: 07025784.