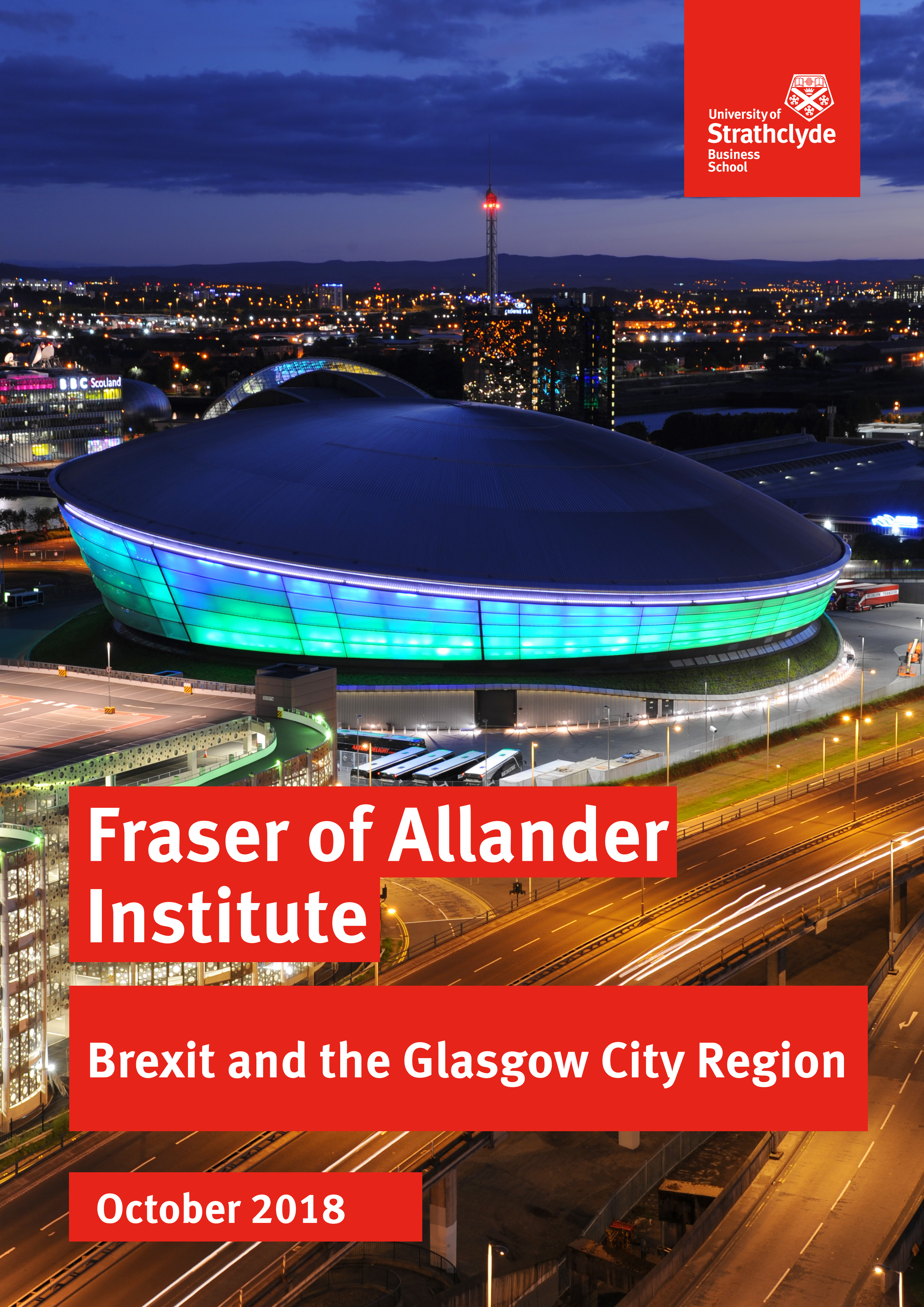

University of Strathclyde Business School

Fraser of Allander Institute

Brexit and the Glasgow City Region

October 2018

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The Fraser of Allander Institute

Disclaimer

The analysis in this report has been conducted by the Fraser of Allander Institute (FAI) at the University of Strathclyde. The FAI is a leading academic research centre focused on the Scottish economy.

The report was commissioned in September 2018 by Glasgow City Region.

The analysis and writing-up of the results was undertaken independently by the FAI. The FAI is committed to informing and encouraging public debate through the provision of the highest quality analytical advice and analysis. We are therefore happy to respond to requests for factual advice and analysis. Any technical errors or omissions are those of the FAI.

Executive summary

Brexit and the Glasgow City Region

- The UK will leave the European Union in March 2019 – marking the most significant change to the UK economy in over 45 years.
- More than two years since the EU referendum, much still remains unclear about the nature of the future relationship between the UK and the EU.
- As a major European city, with a diverse business base, Glasgow and the city region cannot expect to be immune from the changes that Brexit will bring.
- Exports to the EU are estimated to support over 130,000 jobs in Scotland through direct demand and wider spill-overs into the Scottish economy.
- Based upon an illustrative apportionment of such activity across Scotland's regions, we estimate that the Glasgow City Region makes up around 40,000 of these jobs – with almost 20,000 jobs in Glasgow City alone.
- Particularly important for the Glasgow City Region are services exports, which account for two-thirds of the jobs supported by EU demand in the region.
- It is not just exporting that will be impacted. For example:
  - Many businesses operate as part of complex supply-chains, some of which cross EU borders multiple times;
  - Over the years, Glasgow City Region has often punched above its weight in attracting international investment;
  - The city region's higher and further education institutions have large numbers of EU students and staff; and,
  - Public services also rely upon EU workers to help deliver the care and support that we depend upon.
- The risks arising from Brexit have been well documented, but with any change comes opportunity. New market opportunities provide one potential source of growth.
- Therefore, whether you agree or disagree with Brexit, it is vital that businesses and policymakers in the Glasgow City Region prepare for leaving the EU and seek to manage any risks but also take advantage of new opportunities.
- This report aims to set out some key issues for the Glasgow City Region economy and identifies a number of key issues for businesses and policymakers to consider in the months ahead.

Introduction

Leaving the European Union (EU) represents the greatest change to the UK, Scottish and Glasgow City Region economies in a generation.

It will impact the way we trade and it will alter patterns of investment and the supply of workers. By no longer being tied to EU rules, future economic, social and environmental policy may look quite different.

The UK will leave the European Union on the 29 March 2019 at 2300 GMT.

Many of the impacts are hard to assess. A great many will be relatively subtle but long-lasting.

In our view, Brexit will act as a significant headwind for the Glasgow City Region economy over the long-term.[1]

But as with any change, there will be winners and losers. The risks and opportunities could look quite different for individual sectors and companies.

It is also important to recognise that the Glasgow City Region has overcome significant economic challenges in the past. How the City Region responds – across its public, private, third sector and education sectors – will have a profound impact on the region's long-term growth prospects.

Glasgow City Region is crucial to Scotland's economy. Glasgow City alone is estimated to have contributed over £20 billion worth of GVA in 2016 – over 15% of Scotland's economic output.[2]

It is vitally important that businesses prepare for Brexit. It is also crucial that policymakers re-double their efforts to support improvements in the long-term drivers of prosperity that are within their control, such as levels of innovation, investment, fair work and skills.

The aim of this short report is to provide a summary of our understanding of the possible implications for the Glasgow City Region from Brexit.

It also aims to facilitate a discussion with stakeholders and to offer insights on where we recommend businesses focus their thinking in the months ahead.

- The UK's decision to leave the EU: what we know so far;
- The Glasgow City Region & Brexit: the key issues for the regional economy;
- Planning for Brexit: our take on where business should focus their thoughts; and,
- Conclusions & Next Steps

1 See Fraser of Allander (2016): "Long-term Economic Implications of Brexit" www.sbs.strath.ac.uk/feeds/news.aspx?id=1057
2 ONS Regional GVA: https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach

The UK's decision to leave the EU

What we know so far

Despite it being less than 200 days until the UK leaves the EU, there remains little clarity over the economic terms of Brexit.

Over 40% of Scotland's international exports are to the EU.[3] Many firms in Scotland, and in the Glasgow City Region, operate in supply chains which rely upon the constant flow of goods and services across the EU.

> The EU is the largest single market for Scotland's international exports – with such demand estimated to support over 130,000 jobs across Scotland each year.[4]

At the same time, with Scotland's working age population projected to fall over the next decade, fewer EU migrants could have implications for a number of sectors and the public finances.

> There are an estimated 219,000 EU citizens currently resident in Scotland (4.1% of the total population). Of EU nationals aged 16 and over, 77.6% are in employment.[5]

On top of this, no-one yet knows the impact on domestic and international investment, productivity or the UK's status in the global economy.

Two significant uncertainties remain:

1. The nature of the UK's long-term economic, financial and social relationship with the EU; and,
2. The specific details of the transition to any such new arrangement.

In March 2018, some progress appeared to have been made with details agreed on the terms of the UK's exit and the transition period up to 31st December 2020. In recent months however, this has looked increasingly uncertain. The probability of a 'no-deal' scenario has increased.

The options

The table below provides an overview of each option. In reality, the arrangements are highly complex and a stylised summary such as this necessarily hides a significant degree of detail.

Nevertheless it hopefully provides a useful guide.

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3 Export Statistics Scotland: https://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/ESSPublication/ESSExcel
4 See our report for GMB Scotland - Brexit and the sectors of the Scottish economy - Fraser of Allander (2017) www.sbs.strath.ac.uk/feeds/news.aspx?id=1383
5 https://beta.gov.scot/binaries/content/documents/govscot/publications/publication/2018/01/scotlands-place-europe-people-jobs-investment/documents/00530160-pdf/00530160-pdf/govscot:document/

Table 1: Different models for the UK post-Brexit

	Scottish Government[6]	Norway style model	Customs Union plan	UK 'Chequers Plan'	Canada+	'Hard Brexit' - WTO option
EU Single market	Yes	Yes	No	No	No	No
EU Free trade	Yes	Yes	Yes	Yes*	Yes*	No
EU Customs union	Yes	No	Yes	Facilitated arrangment	No	No
Be-spoke UK trade deals	No	Yes	No	Yes	Yes	Yes
Freedom of movement	Yes	Yes	Uncertain	No	No	No
Contribution to EU Budget	Yes	Yes (reduced)	Possibly	No	No	No

* Largely limited to goods not services. Non-tariff barriers would remain

The differences between each arrangement depend largely upon the nature of the trading relationship between the UK and the EU. It is this that shapes the outcomes across many other areas, such as migration.

Six of Scotland's top 10 destinations for exports are in the EU. A further two – Norway & Switzerland – are part of EU trade arrangements which may need to be negotiated post-Brexit.[7]

The Scottish Government's favoured approach is for the UK to remain within the Single Market and Customs Union. Membership of the Single Market is much broader than simply trade, and includes wider cooperation in areas such as product regulation, environmental standards and cooperation in other areas (such as VAT processes).

Underpinning the Single Market is the commitment to Four Freedoms – the free movement of goods, services, capital and persons. The UK would have to continue to accept the free movement of people across the EU, contribute to the European Commission Budget and would be unable to make trade deals with third countries.

The non-agricultural trade weighted average tariff on imports into the EU is relatively low at 2.6% (2015).[8] Tariffs on some individual products are much higher, however, especially on agricultural goods. The EU tariff on cars, for example, is 10%. The average EU tariff on sugars and confectionery is nearly 30% and on beverages and tobacco over 20%.[9]

A free trade arrangement – like the EU has agreed with Canada (i.e. taxes on imports or exports of Canadian or European products to and from the EU) – would mean no tariff barriers. However, non-tariff barriers (NTBs) would exist.

NTBs are typically the rules and regulations that govern the buying and selling of goods in different countries.[10] In addition, how previously agreed quotas for the EU would transfer over to the UK would need to be resolved.

6 Strictly speaking, the Scottish Government's favoured position is for Scotland, and the UK as a whole, to remain in the EU.
7 Source: Scottish Government Export Statistics Scotland: www.gov.scot/Topics/Statistics/Browse/Economy/Exports/ESSPublication
8 WTO tariff profiles 2017: https://www.wto.org/english/res_e/booksp_e/tariff_profiles17_e.pdf
9 House of Commons Library briefing paper 07213, August 2016 http://researchbriefings.files.parliament.uk/documents/CBP-7213/CBP-7213.pdf
10 In many sectors, they are potentially much more prohibitive than tariffs. For example, non-EU banking, insurance and investment management firms face significant regulatory barriers to providing cross-border services.

The Customs Union members collectively establish the trade barriers on imports from other countries outside the EU. If it leaves the Customs Union, the UK would be responsible for negotiating new international trade agreements.

> In 2016, trade with the EU represented over 40% of Scotland's total international exports – more than to North America, Asia, South America and the Middle East combined. A further 12% of Scotland's international exports were to countries with which the EU has a trade agreement, which may not be open to the UK.[11]

But being outside the Customs Union will lead to border checks at the boundary between the UK and the EU and additional administrative bureaucracy to monitor UK-EU trade. For example, a British exporter to the EU will be required to complete 'rules of origin' checks.[12]

In July, the UK Government set out their favoured negotiating position, commonly referred to as the Chequers Plan.[13]

At a gathering in Salzburg in September, the EU appeared to rule out many aspects of this plan, citing – in their view – apparent inconsistencies with the operation of the Single Market and disagreement over how the complex question of the Irish border.

Under a 'Hard Brexit', the UK would revert to WTO rules for trade with the EU (and all other countries). Reversion to WTO would lead to tariffs on UK-EU trade. All other interactions would likely be negotiated on a case-by-case basis.

The Chequers Plan

On 12th July, the UK Government published what it would like to see in terms of a future economic partnership with the EU. At its heart is a proposal for:

- The UK to leave the Single Market and Customs Union;
- A comprehensive free trade deal for goods only (including alignment on standards);
- A 'Facilitated' customs arrangement where UK collects tariffs on goods coming into the UK on behalf of the EU;
- The end of free movement, but a new "mobility framework" to allow UK and EU citizens to travel, and apply for study and work; and,
- The withdrawal of the UK from EU institutions

11 Export Statistics Scotland (2016): https://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/ESSPublication
12 Other issues include the treatment of VAT on cross-border sales.
13 The Future Relationship Between The United Kingdom and The European Union https://www.gov.uk/government/publications/the-future-relationship-between-the-unitedkingdom-and-the-european-union

Potential economic impacts

The majority of independent economists predict that leaving the EU will act as a headwind for the UK's and Scotland's long-term economic prospects.

Those in favour of Brexit have tended to argue that the impacts could be smaller than predicted by the mainstream view and that new opportunities – including localised policy making, a potential re-orientating of international trade agreements, a move to more free-market policies and reducing the (perceived) negative impact of EU migration – could outweigh the risks.

Our estimates suggest a significant negative hit to Scotland's long-term economic output and jobs compared to a scenario where the UK remained in the EU.

Table 2: Change in Scottish GDP relative to baseline of full EU membership by 2030

	EEA	FTA	WTO
UK (2018)*	-2.5%	-6.0%	-9.0%
SG (2018)	-2.7%	-6.1%	-8.5%
FAI (2018)	N/A	-4.9%	-7.5%

* As reported in the media

This analysis is broadly in line with that of both the UK and Scottish Governments.

While there is no direct comparator for the proposed Chequers approach, as an approximation it is not too dissimilar to the FTA scenario contained in the above modelling.

No deal

The discussion so far assumes that an agreement of some form is reached between the UK and the EU and that there is an orderly transition.

However, there is another possible scenario where 'no-deal' is reached in the negotiations. Here, there would be no transition period.

As the Bank of England Governor, Chancellor of the Exchequer and head of the IMF have warned, such a 'cliff-edge' scenario could have serious implications for our economy in the short-term.

The UK Government has published a series of papers designed to set out the potential implications of a 'no-deal' scenario.[14]

The reality of a 'no deal' scenario has become an increasingly hot topic of debate, with talk of food shortages, drug stockpiles and log-jams at entry points to the EU. Whilst some of more recent commentary has been overly alarmist, such issues will be the unfortunate reality of the UK leaving without agreement.

In our view, irrespective of whether or not you agree or disagree with Brexit – or indeed the nature of the final settlement – a smooth transition is vital.

14 See www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal

The Glasgow City Region economy and Brexit

The Glasgow City Region is a key driver of growth in the Scottish economy.

It generates over 30% of Scotland's GVA.[15]

It comprises eight Member Authorities: East Dunbartonshire Council; East Renfrewshire Council; Glasgow City Council; Inverclyde Council; North Lanarkshire Council; Renfrewshire Council; South Lanarkshire Council and West Dunbartonshire Council.

Glasgow City Region has a working population of 1.2 million.[16] It is home to 30% of Scotland's businesses and is a base for around 1/3 of the nation's jobs.[17]

But whilst progress has been made on tackling levels of deprivation in the region, poverty and a lack of economic opportunity for many remains a challenge.

We identify six broad channels through which Brexit could have an impact on the Glasgow City Region economy:

- Exports
- Supply chains, including imports
- International investment
- The labour market (including EU workers and students);
- The policy and regulatory environment; and,
- Short-term uncertainty.

15 ONS: https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach
16 NOMIS, Population estimates – local authority (16-64 years) (2017): https://www.nomisweb.co.uk/articles/1094.aspx
17 Scottish Annual Business Statistics (SABS) – local authority areas (2016): https://www.gov.scot/Topics/Statistics/Browse/Business/SABS/LAbySection

Exports

Our analysis suggests over 130,000 jobs in Scotland are supported by external demand from the EU.[18]

This includes both direct demand (i.e. purchases from the EU), indirect demand (i.e. spill-overs into the wider supply chain) and induced demand (i.e. demand supported by the ongoing spending of wages and salaries by workers in Scotland).

Glasgow City makes up an estimated 20,000 of these jobs, with the City Region accounting for over 40,000 of these jobs.

Table 3: Estimated jobs supported by exports to the EU (rounded to the nearest 1000)

	Glasgow City	Glasgow City Region	Scotland
Direct	12,000	25,000	80,000
Indirect	5,000	10,000	33,000
Induced	3,000	6,000	21,000
Total	20,000	41,000	134,000

It is important to note that we are not saying that these jobs will be lost post-Brexit. Instead, we are simply highlighting the scale of the jobs that are supported by external demand from the EU.

It is possible to look at this issue from a sectoral dimension.

While goods make up the bulk of Scottish trade with the EU, services account for a much larger share of our economy.

Services are an increasingly important component of Scotland's EU exports. For example, service sector exports to the EU have risen from 22% of total EU exports in 2002 to 33% in 2016.[19]

Indeed, our analysis of the jobs which directly rely on trade with the EU suggests 59% of these are in service industries.

What is true for Scotland as a whole is even more so for the Glasgow City Region.

Table 4: Industry breakdown of jobs directly supported (rounded to nearest thousand, unless ‹ 1000)

Sector	Glasgow City	Glasgow City Region	Scotland
Agriculture, Forestry & Fishing	0	0	3,000
Non-manufacturing production	100	200	2,000
Manufacturing	3,000	7,000	26,000
Construction	200	500	1,000
Services	9,000	17,000	48,000
of which Business Services and Finance	*4,000*	*7,000*	*18,000*
Total	**12,000**	**25,000**	**80,000**

18 See: https://pure.strath.ac.uk/ws/portalfiles/portal/70630513/FAI_2017_Brexit_and_the_sectors_of_the_Scottish_economy_a_report_for_GMB_Scotland.pdf

19 Export Statistics Scotland (2016): https://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/ESSPublication/ESSExcel

Direct impacts

Many businesses directly export to the EU. Exporting to the EU generates activity such as wages paid, tax to the government and the production of goods and/or services. This includes jobs directly supported by EU export activity.

Indirect impacts

Businesses exporting to the EU purchase goods and services from their suppliers. These suppliers also pay wages, tax and generate GDP and, in turn, purchase goods and services from their suppliers. This includes jobs indirectly supported through supply chains.

Induced impacts

The wages paid as a result of businesses exporting to the EU and their supply chain are then spent on goods and services across the Scottish economy, generating further economic activity.

Our analysis shows that of the jobs supported directly by EU exports (12,000 in Glasgow City and 25,000 in Glasgow City region), around three quarters and two thirds respectively are jobs in service industries.

Not included in these figures is non-resident household spending in Scotland, i.e. visitors from the EU who spend their money whilst over on holiday. This makes up around 6% of all Scottish exports.

These are particularly important for the hotels and catering industries, where spending by visitors makes up almost 100% of exports. In 2017, just over half of all international overnight trips to Scotland were made by EU residents, with a total of almost £1bn spent.[20]

Whilst Brexit will represent a significant shake-up to Scottish trade, it is important to focus upon opportunities. Scotland currently does not trade enough with the anticipated growth markets of the future.

Exports to India were £235 million in 2016, less than the £370 million of exports to Luxembourg. At the same time, we still trade over 80% more with Ireland than we do with China.[21]

If Brexit perhaps makes businesses do one thing, it could be to lift their ambitions to the wider opportunities that exist in the global economy.

Box A. Approach to calculating illustrative jobs figures

The estimates of jobs supported by EU Exports in Glasgow City Region and Glasgow City presented here have been estimated in order to provide an illustration of the impacts for these areas of the country. There is not a separate model for the Glasgow City region at this time. Our starting point is the analysis produced for our GMB report last November.[22]

Data from the Annual Business Survey, Annual Population Survey and Workforce Jobs were then used to apportion the jobs directly supported by exports at a Scotland level to these smaller geographies. The aggregate multipliers at a Scotland level were then used to provide an illustrative estimate of the possible indirect and induced effects. This means that the results are necessarily high-level, but they provide a helpful indication of relative magnitude.

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20 Overseas travel and tourism, quarterly: https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/datasets/overseastravelandtourism

21 Source: Scottish Government Export Statistics Scotland: www.gov.scot/Topics/Statistics/Browse/Economy/Exports/ESSPublication

22 https://pureportal.strath.ac.uk/files-asset/70630513/FAI_2017_Brexit_and_the_sectors_of_the_Scottish_econ

Supply chains

Many Glasgow businesses are part of a wider supply chain, very few design and make all their own products from scratch.

This means that they often buy in materials, services etc. from elsewhere to help them make their own product. Similarly, many will service other companies further along the value chain.

Membership of the Single Market and Customs Union has enabled firms in Glasgow to expand their participation in global supply (or value) chains, as goods can be moved freely around Europe. This leads to a network of producers across Europe, each contributing inputs in the form of goods and services to a production process.

In 2017 and for Scotland as a whole over £1bn worth of office machinery was imported from the EU with a further £400m of general industrial machinery imported.[23]

In work for the Scottish Parliament, we found that many of the sectors that could be exposed to any downturn in trade with the EU, might not just be those sectors directly exporting to Europe.

Instead, it is likely to include sectors which support the wider economy such as in wholesale & retail; transportation and storage; and professional services.[24]

These are all areas where Glasgow City Region has significant strengths.

23 See HMRC Regional Trade Statistics www.uktradeinfo.com/Statistics/RTS/Pages/default.aspx
24 See www.sbs.strath.ac.uk/economics/fraser/20161006/Long-term-Economic-Implications-of-Brexit.pdf

In another example, whilst many financial services firms in the Glasgow City Region might not sell products directly into the EU, they play a key role in a wider market – including the City – which depends upon on the UK's position as Europe's financial centre. Loss of passporting rights is likely to compromise the present level of financial services exports to the EU.

In addition, we also found that if Brexit did lead to a slowdown in long-term economic growth as many have predicted because of reduced tax revenues, public sector budgets may also be squeezed.

International investment

According to OECD and EY's Global Investment Monitor data, the UK has been the largest recipient of investment in the EU since the establishment of the EU Single Market.

The Glasgow City Region has been particularly successful at attracting such investment.

> The City of Glasgow was ranked 6th in the UK in terms of international investment projects gained in 2017.[25]

How important is EU membership to such investment?

Some of the Glasgow City Region's advantages have little to do with the EU. Glasgow City Region's skilled workforce, infrastructure and business networks are also seen as vital assets. That English is the language of commerce is also clearly an advantage. The UK's legal and regulatory system makes it relatively attractive for investors as is the wider economic development environment created by the Scottish Government, Scottish Enterprise and local government.

But the EU is believed to have been at least part of the story, with many firms choosing to locate here so that they can freely export across the EU. How leaving the EU will impact on such flows remains uncertain.

> There are over 700 EU owned enterprises in Glasgow City region, employing over 46,000 staff.[26]

The labour market

Net migration to Scotland has meant an inflow of working age migrants in recent years.

As of mid-2016, 1.9% of Glasgow City's population came from overseas between mid-2015 and mid-2016.[27]

Boosting the population through migration can have a number of economic advantages, particularly in places – like Scotland – where there is a shrinking working age population amongst existing residents.

> In comparison to other cities, Glasgow's population is slightly older with higher proportions of individuals approaching or already of retirement age.[28]

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25 Ernst and Young survey: https://www.ey.com/uk/en/issues/business-environment/ey-uk-attractiveness-survey

26 Businesses in Scotland 2017, Scottish Government www.gov.scot/Topics/Statistics/Browse/Business/Corporate/ForeignTables/table16

27 See 'The Contribution of EEA Citizens to Scotland: the Scottish Government's Response to the Migration Advisory Committee Call for Evidence on the Role of EEA Workers in the UK Labour Market': www.gov.scot/Publications/2017/11/9611/2

28 https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates

For some sectors in Glasgow City Region, it is the potential implications for the labour market issues that are most important in considering the potential impacts of Brexit.

> There were around 57,000 EU nationals living in the Glasgow City region in 2017 - the majority of whom were living in Glasgow City. They tend to be younger and more likely to be in work than average.[29]

For example, Glasgow City Region's university sector faces a number of unique issues, particularly related to its teaching and research activities.

In 2016-17, almost 6,000 higher education students from the EU enrolled to study in Glasgow, in both undergraduate and post-graduate courses.[30] Not only do they make a significant economic contribution whilst completing their qualifications, many of them choose to stay beyond graduation. In this regard, they tend to be relatively more skilled than average.

Secondly, a significant number of academic staff in the Glasgow City Region are from the EU. Their status – and their perception of life in the UK – will be important for attracting global talent in the future.

> The University of Glasgow, University of Strathclyde and Glasgow Caledonian University are co-ordinating Horizon 2020 EU research projects worth over £90m between 2014 and 2020.[31]

Thirdly, higher and further education sector have also benefited from significant EU funding – including for research (as part of Horizon 2020) and for capital building programmes (such as via the European Regional Development Fund and the European Investment Bank (EIB) which has been a major funder of college campuses in Glasgow). Details on replacement funds and sources are not yet known.

The future replacements for Structural Funds, including the European Social Fund which has benefited many in the City Region, are also unclear.

Other successful sectors in the Glasgow City Region also depend upon EU workers. For example, it is estimated that at a Scottish-wide level, EU nationals make up around 13% of all those employed in the tourism sector.[32]

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29 NRS population by country of birth and nationality in Scotland, by council area, 2017: https://www.nrscotland.gov.uk/files//statistics/population-estimates/pop-cob-17/pop-cob-nat-17-tab-3.xlsx

30 The impact of international students in Scotland (2018): https://www.gov.scot/Publications/2018/03/1178/9

31 EU Open Data Portal: https://data.europa.eu/euodp/data/dataset/cordisH2020projects

32 See Scotland's Place in Europe: People, Jobs and Investment https://beta.gov.scot/binaries/content/documents/govscot/publications/publication/2018/01/scotlands-place-europe-people-jobs-investment/documents/00530160-pdf/00530160-pdf/govscot:document/

The policy and regulatory environment

The EU Withdrawal Bill will, initially, mean that EU regulations and standards will be retained when the UK leaves the EU.

An attempt to ensure mutual recognition of standards to limit non-tariff barriers on goods underpins the UK's Chequers Plan. No such agreement is planned on services. Moreover, if the decision to leave the EU was in part motivated by a desire to take a different political path, UK and EU economic and regulatory policies are likely to diverge over time.

A number of issues are worthy of note:

- Non-tariff barriers can be a significant impediment to trade. If the UK takes a different approach – e.g. in product safety standards or labour market regulations – this would limit access to EU markets
- The future of State Aid will have to be determined, including government procurement
- Taking a 'different path' is certainly an option. But this clearly opens up a host of significant social justice, environmental and wider economic questions

Short-term uncertainty

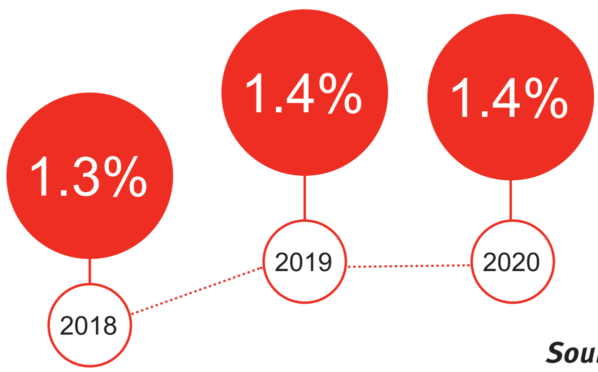
As we have outlined above, irrespective of particular views on Brexit – or the shape of the final agreement – a smooth transition is vital.

As the Chancellor, Governor of the Bank of England and head of the IMF have cautioned, a 'cliff-edge' scenario could have serious implications for our economy in the short-term.

Despite the uncertainty, businesses in Scotland (and the Glasgow City Region) seem to be 'looking-through' the uncertainty and are getting on with the day job. But as we discussed in our latest Fraser of Allander Economic Commentary, this remains fragile.

> The latest Fraser of Allander forecast for the Scottish economy is for growth of 1.3% in 2018, 1.4% in 2019 and 1.4% in 2020.[33]

Growth is projected to continue in the Scottish economy this year and next. But should a 'no-deal' outcome become an eventuality, then growth is likely to slow sharply. Much will depend upon how markets, government and the Bank of England react. We will, however, be in unprecedented times with no real certainty on how the economy, markets and investors might react.



Source: FAI forecasts for Scotland

33 https://www.sbs.strath.ac.uk/economics/fraser/20180926/2018-09_FAI_Economic_Commentary.pdf

Planning for Brexit

It is understandable that with so much uncertainty around, it is difficult for businesses, the public sector and other institutions to put in place contingency plans and strategies.

In a recent survey, we found that the majority of Scottish businesses we spoke with feel ill-prepared for Brexit.

Chart 1: Do you feel that your business is prepared for Brexit?

One of the key reasons for this appears to be a lack of adequate information available to plan for different potential outcomes of the Brexit negotiations.

In a recent Fraser of Allander survey of Scottish businesses, only 13% of firms believed that there was adequate information for them to prepare for Brexit.[34]

We also asked businesses about what factors were affecting their preparations. 'Uncertainty over the UK Government's objectives in the negotiations' was the most popular response (with over 59% citing this as a factor).

But like-it-or-not, Brexit is happening. So the sooner that businesses prepare for this reality the better.

President Eisenhower's famous quote: *"...I have always found that plans are useless, but planning is indispensable"* – has arguably never been more appropriate.

No-one knows with certainty the outcome of the negotiations.

34 See: Brexit: the mood amongst Scottish businesses: https://fraserofallander.org/uk-economy/brexit/brexit-scottish-business-survey/

What will our trading relationship with the EU be; will there be tariffs?, or a customs border to navigate?; how closely aligned will UK regulations be with the EU?; how accessible will EU wide resources be? (if not, what will replace them here in the UK?); and, what will be the future for EU workers and students in Glasgow?

But the process of working through different scenarios will be invaluable. Effective preparations will ensure that firms will be able to make the best of the new economic environment.

In the same vein, it is vital that central and local government make adequate preparations – both in terms of the implications for day-to-day activities (e.g. regulatory changes, EU employees etc.) and their readiness to support local businesses and other institutions should economic conditions take a turn for the worse.

The table below provides a checklist for organisations in considering the effects of Brexit.

Table 5: The Fraser of Allander Brexit Dashboard

Exports & Imports	• Importance of EU markets for demand • Opportunities for import substitution • What tariffs or quotas could you face • Customs – administrative costs & time delays

Supply chains	• Linkages to EU firms -
	  • both upstream and downstream -
	  • both directly and indirectly

Labour market	• Importance of EU workers to business operations • Communication with existing EU (UK) workers in the UK (EU)
Regulation	• Potential implications for key regulations that firms operate within • E.g. environmental, safety standards, product
International investment	• Importance of EU investment for growth • Implications for location decision

Uncertainties	• Contingency planning for:
	  • any short-term dislocation of markets
	  • and financial market uncertainty

Conclusions and next steps

The UK will leave the European Union in March 2019, marking the most significant change to the UK economy in over 45 years.

It is vital that businesses and other organisations prepare for such a momentous change.

As a major European city, with a diverse business base, the Glasgow City Region economy cannot expect to be immune from the impact of Brexit.

This report has set out some key issues for businesses and policymakers to consider in the months and weeks ahead.

In particular, we recommend that each business examines what Brexit – and the different variants of possible outcomes – might mean for the environment that they operate in and the business model that they run.

The dashboard in this document provides a helpful first step to consider the key implications.

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