What are the implications of a Brexit for the UK?

With the EU referendum looming, Steve Brambley, director of public affairs at Gambica*, attempts to distinguish between facts and emotional responses to a potential UK departure from the EU.

At the recent Drives and Controls exhibition, I was part of a panel discussion on the future trends in automation. Many subjects were covered, including Industry 4.0, apprenticeships, condition monitoring and collaborative robots, but the hardest questions to answer were those concerning the EU referendum.

As we approach 23 June, the date for the UK referendum on EU membership, the number of discussions, debates and conversations we are having with members and stakeholders is increasing. The one thing that I hear mentioned consistently is that no one can really predict the consequences of either scenario and therefore, with no clear facts available, only opinion is proffered. Thus the choice often becomes one of the heart rather than the head, a gut feeling instead of a forensic analysis.

As I write, the polls have the Remain camp with just a 1% lead over the Leave campaign, with many potential voters still undecided – a situation that gives rise to much uncertainty about how voting will go on the day. In itself, this very uncertainty is having an impact on business, because projects are being delayed and investment is being postponed until after the result is known.

The professional services firm PwC recently published a report that sought to give a balanced and quantitative economic forecast for a Brexit scenario. In it, they look at both the plus and minus points for two different scenarios should the UK leave the European Union.

In terms of economic benefit, the report suggested that the UK would have less financial obligations due to not paying a fiscal contribution to the EU and having lower regulatory burden. The UK has paid on average £16.8bn per year since 2010, and receives around £8bn back from the EU in subsidies and grants. This net contribution of £8.8bn equates to 0.5% of GDP. The potential for reducing regulatory burden is somewhat difficult to estimate and PwC thinks that the UK may have limited scope to influence regulation driven by global initiatives.

PwC assesses a reduction in migration to the UK somewhat neutrally, as neither a benefit nor a disadvantage. Currently, 6% of the UK workforce is made up of people born in other EU member states and PwC estimates that the main impact of restricting immigration would be on lower skilled labour.

The report also highlights some risks, mainly an increased level of uncertainty and lower levels of trade. The prediction is one of two years of economic and political uncertainty over relationships with other EU member states. To quote the report directly: "This uncertainty would be likely to manifest itself in increased financial market and exchange rate volatility, higher risk premia in credit and equity markets, and possible consequential impacts on business confidence and investment". An exit could lead to an increase in trade tariffs with a knock-on effect of decreased investment and, in particular, foreign direct investment, which is currently valued at £1 trillion.

In weighing up the benefits and risks, PwC estimates that by 2020, the UK's GDP will be 3–5.5% lower if the UK exits the EU than it would be if it remains – equating to £55–100bn. PwC predicts that the uncertainty would be resolved by 2030, however the net effect would be a GDP that is 1.2–3.5% lower than if the UK remains in the EU.

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Of course, this is an estimate that is subject to the many uncertainties of any forecast. However, it is a step further than simple opinion or political belief and, if nothing else, serves to provide a talking point and benchmark for comparison with alternative economic analyses and models. The reality we will only know after 23 June. ■

*** Gambica is the trade association for the automation, control, instrumentation and laboratory technology sectors in the UK. For more information, please contact the director of public affairs, Steve Brambley, on 020 7642 8090 or via sbrambley@gambica.org.uk www.gambica.org.uk**