



Impact of Brexit on trade with the Netherlands

Globalisation facing exogenous shocks: what can we learn?

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Brexit

Timeline of Brexit:

- 23 June 2016: Brexit Referendum
- 1 February 2020: UK leaves the EU (withdrawal agreement)
- 24 December 2020: Agreement between UK and EU
- 1 January 2021: UK leaves the internal market



Brexit effects

- Since 2021 trade takes place under customs supervision
- Many obstacles for the trade in goods:
 - Import tariffs for goods from outside the EU
 - Non-tariff barriers, e.g. administrative actions
- Additional effects:
 - Uncertainty, especially end 2020, begin of 2021
 - Shifts in supply and demand, e.g. company relocations



Research question

What would trade between NL and UK have looked like if no Brexit had taken place?

Synthetic control method

Problem

Other effects, like Covid-19, also impact trade between UK and NL

Solution

Create a *synthetic control unit*, a counterfactual that behaves like the UK until 2021, composed of trade between NL and other countries

Assumptions

- Trade between NL and all other countries is not significantly affected by Brexit
- No other major external shock happened on January 1st 2021

Creating the counterfactual

Data

- Trade in goods between NL and other countries (EU and non-EU)
- Monthly data, in nominal values, from January 2010 onward
- All goods, except crude oil, natural gas and electricity

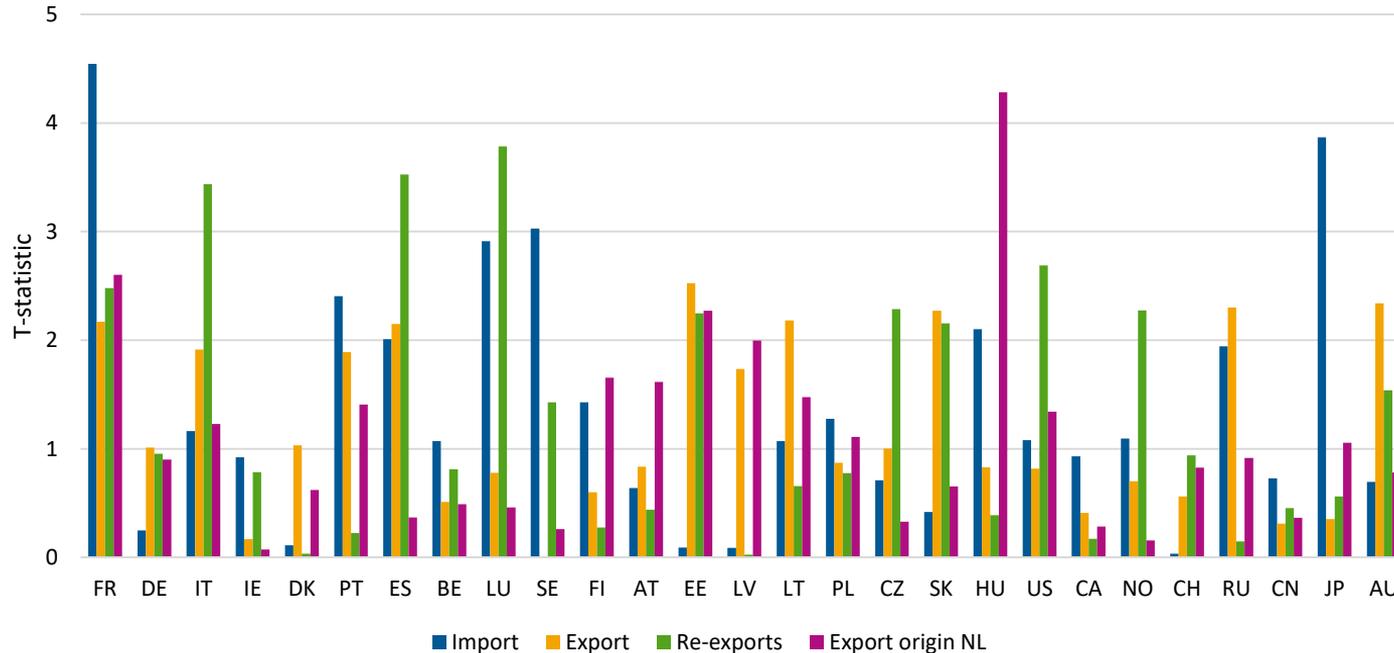
Method

- Regression model of trade with the UK on trade with other countries for the period 2010 – 2020
- Save these coefficients for prediction of trade with UK in 2021
- Brexit effect = Actual value – Synthetic value

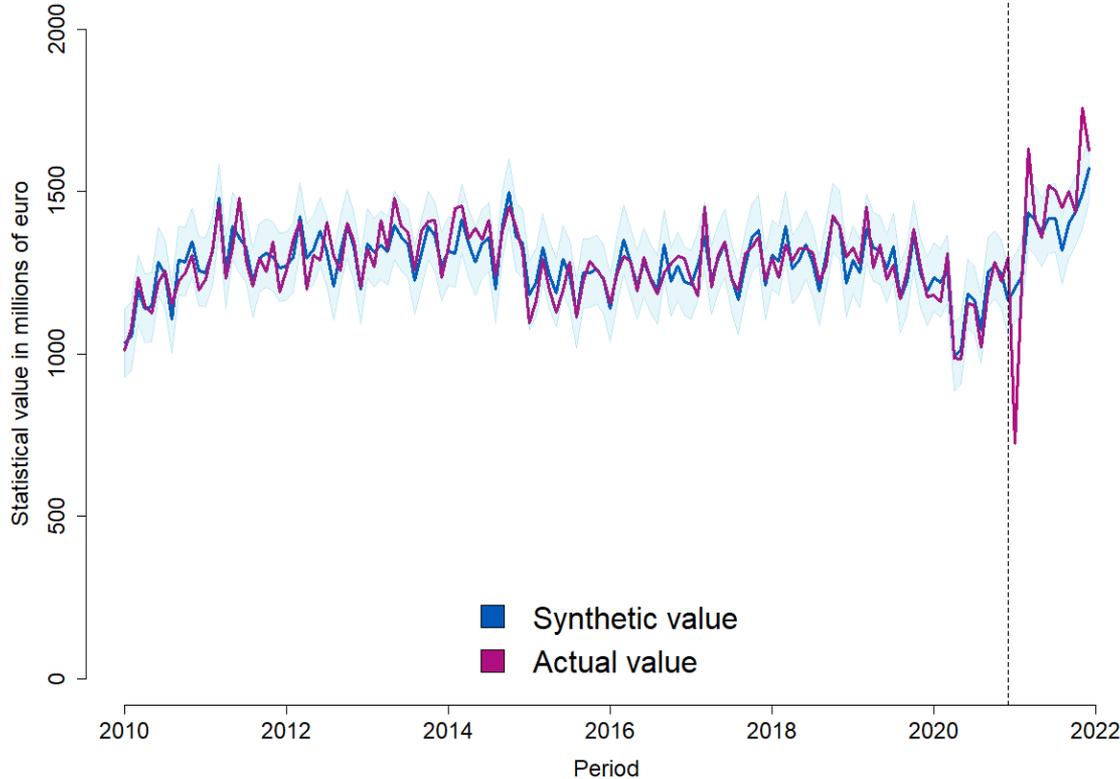


Weights

Standardized weights (coefficient/ standard error)



Results: imports



Brexit effect 2021:

+ 2.5%

↑ Manufactures (+52%)

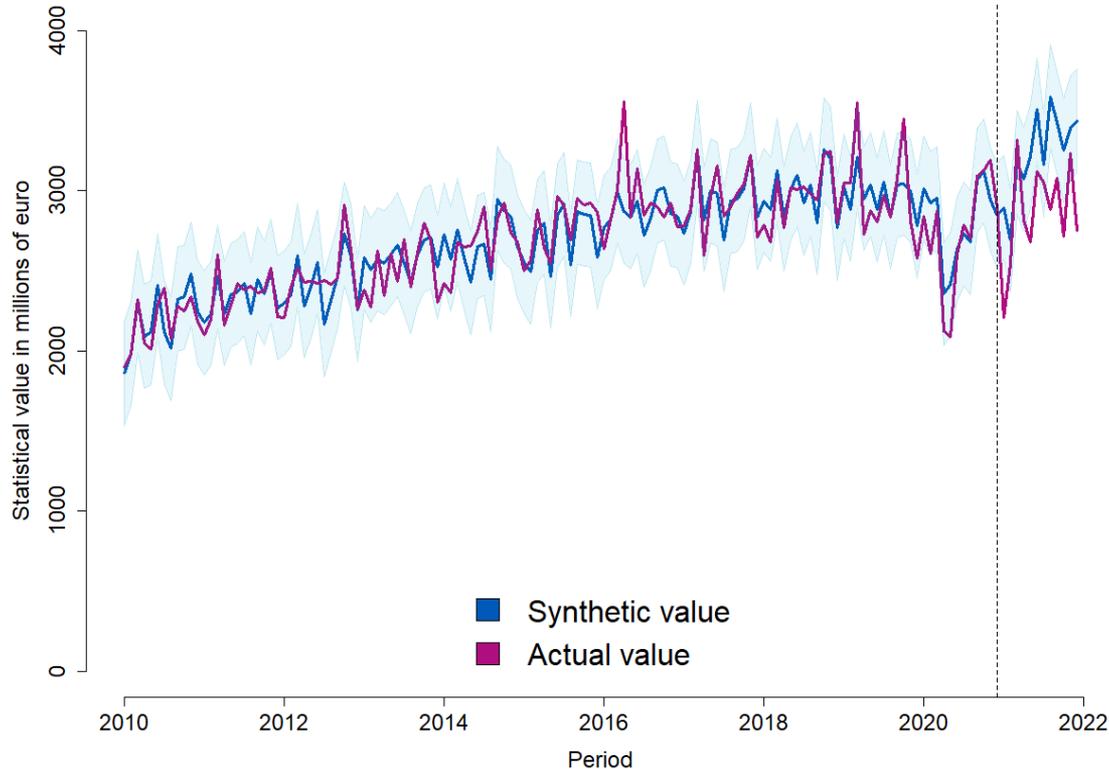
↑ Chemicals (+21%)

↓ Food, animals (-33%)

↓ Oils and fats (-48%)



Results: exports



Brexit effect 2021:

- **11.4%**

↑ Crude materials (+5%)

↑ Beverages (+3%)

↓ Oils and fats (-31%)

↓ Mineral fuels (-33%)



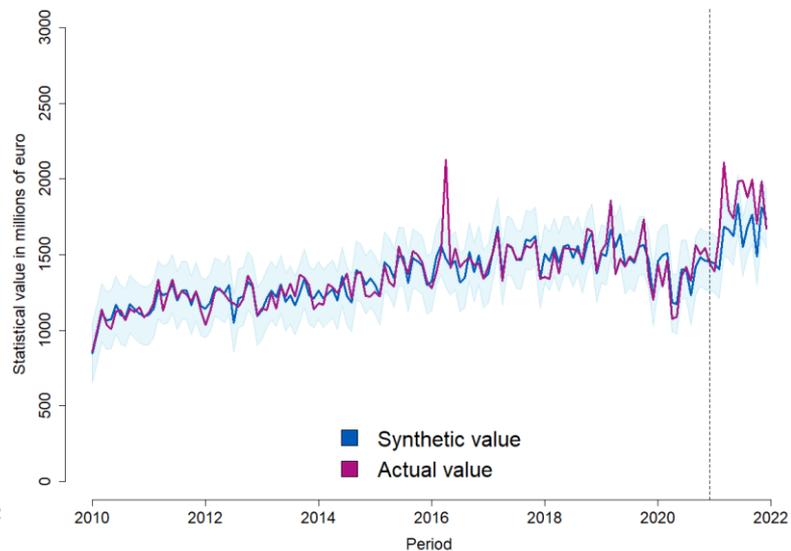
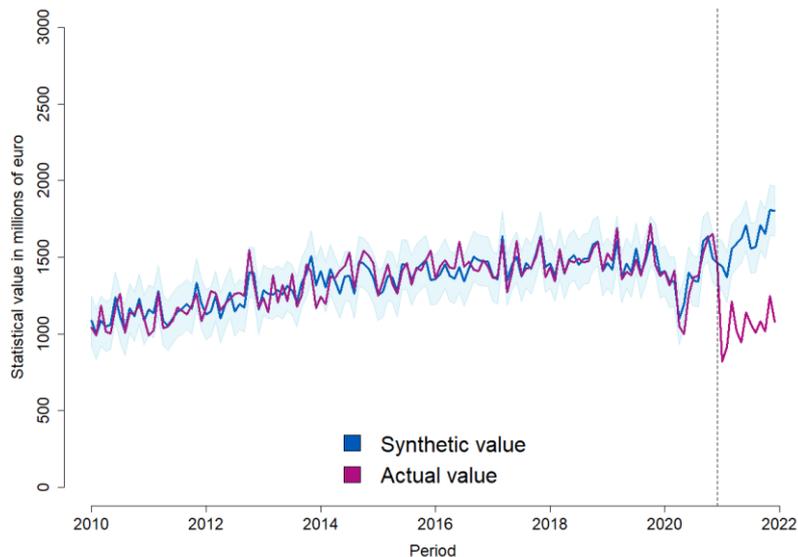
Results re-exports vs. exports origin NL

Re-exports

- 35.2%

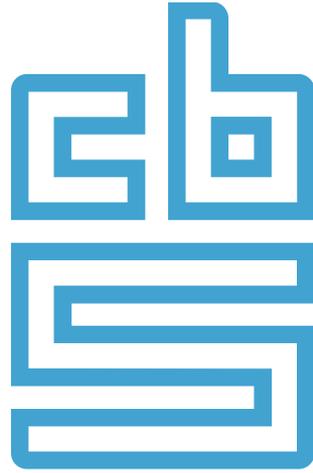
Exports origin NL

+ 11.1%



Conclusions

- Import from the UK not negatively affected by Brexit:
 - Uncertainty in January 2021, but quickly ‘back to normal’
 - Less import of perishable goods (phytosanitary barriers)
- Exports to the UK are lower:
 - Decline in almost all product categories
 - Re-exports much lower, due to import tariffs
 - Export origin NL higher, possibly due to company relocations
- Effects on the Dutch economy: trade balance with the UK deteriorates, but share of re-exports declines.



Facts that matter