Conservative Group for Europe

Factsheet 1: Remain: The Economic Case

Summary

- Britain is a trading nation and 44% of our exports go to other parts of the EU. Over three million British jobs are linked to our trade with the EU. Access to the Single Market is a key reason why Britain receives 20% of the EU's foreign investment. The EU has 36 trade agreements with 53 countries and is able to negotiate as the world's largest trade bloc.
- Leaving the EU would involve unpicking over forty years of increasing economic integration. It is probable that some form of trade deal would ultimately be negotiated but it would take several years and would not be as advantageous as our present access. A 'Leave' vote would be a leap in the dark.
- HM Treasury has calculated that, on its midway scenario, by 2030 Britain's GDP per household would be £4,300 less than it would otherwise have been. The London School of Economics' Centre for Economic Performance calculates that the long-term cost to Britain from lower trade with the UK could be as high as 9.5% of GDP while the resulting fall in foreign investment could cost 3.4% of GDP.
- The Governor of the Bank of England believes that Brexit would result in growth being materially lower and inflation noticeably higher. Commenting on the implications of a 'Leave vote', Christine Lagarde, the Head of the International Monetary Fund, remarked: 'depending on what hypotheticals you take, it's going to be pretty bad to very, very bad'.
- The 'Leave' campaign is not an alternative government. They have made rash claims about the supposed ease with which Britain could negotiate alternative trade deals with the EU and third countries. But, were they were to win they cannot be held to account for the accuracy of their claims.

Throughout history, Britain has been a trading nation. Within the EU, we enjoy three linked benefits.

The first is the **EU "Single Market": the world's largest barrier-free trading area of 500 million consumers**. Within it competition reduces prices for consumers and drives innovation; firms can enjoy economies of scale and more efficient supply chains; and countries can make use of "comparative advantage" to increase general prosperity.

- The chief obstacles to trade today are no longer customs duties or quota restrictions. They are diverse rules on such things as technical standards, product and food safety, and limits on pollution. Largely as a result of British initiatives, these have been aligned in the EU so that traders face only **one set of rules instead of up to twenty-eight different ones.**
- These rules are established by the EU's Council of Ministers and the European Parliament, which include British Ministers and British MEPs. So **if we quit the EU we should lose our say in making the rules** – but would still have to observe them in order to trade there.
- And **the EU is our largest market**. Some 65% of the British economy is linked to trade; the EU accounts for around half of our trade. Our next largest market, the USA, accounts for only 17%.

Secondly, because we are inside the Single Market, foreign firms want to invest here, creating jobs and wealth. For example, over a thousand Japanese companies have invested in the UK as part of the Single Market, and have created some 130,000 jobs. The UK receives 20% of all such investment in the EU. If we left, so would much of the investment and many of the jobs.

Finally, EU membership **helps British firms to access world markets**. By acting as a single unit, the countries of the EU are in a far stronger bargaining position in negotiating trade deals than if each country acted alone. The UK can offer a potential trading partner 60 million customers. But together, EU countries can offer 500 million.

- That is why our major non-EU trading partners – for example, Canada, the US and Japan – say they prefer an EU-level trade deal to one with the UK alone and why President Obama predicted that in the event of Brexit, Britain would be at the 'back of the queue' in negotiations for a trade deal.
- The EU has already negotiated over 30 trade agreements covering 53 third countries, including South Korea, Canada, and emerging economies like Mexico and South Africa. Negotiations are under way with India, Japan and the United States.
- In 2006 an attempt by Switzerland – often held out as a model for Britain if we quit the EU – to negotiate a free trade agreement with the US had to be abandoned because the latter objected to Swiss agricultural subsidies.
- In the event of a Brexit, most of the EU trade deals would no longer cover Britain meaning that until we could negotiate new Treaties (over, say 7 to 10 years) we would probably depend on having to accept Most Favoured Nation status tariffs. Contrary to claims by those who favour 'Leave', membership of the single market does not inhibit our ability to trade with third countries. If it did, why is it, that fellow EU member, Germany, sells four times as much to China as does the UK?

The net benefit arising from membership is in the region of 4 to 5 % of the wealth we create annually, or about **£1,225 per person per year**. As against this, the UK contributes to the EU Budget, at a net cost of only about **£116 per person** per year.

In order to participate in the Single Market, we are also bound by rules which have been agreed between the EU member states. Anti-Europeans sometimes claim that over 70% of British laws are set by "Brussels". But, a House of Commons study has established that between 1993 and 2014 **an average of only 13.2% of UK legal instruments (Acts of Parliament and Statutory Instruments) were EU-related.**

The economic case for staying in the EU does not, however, just rest on the benefits we get today. Being inside gives us the opportunity to work for greater benefits in the future.

The **first objective** is to extend the "Single Market" to new fields, **particularly to services**. These represent 70% of Europe's economies and generate 90% of new jobs, but currently account for only 20% of intra-EU trade.

- They are also industries where the UK is in an excellent position to compete and expand – so completing the services Single Market could double British exports to the rest of the EU.
- Of particular importance would be the creation of a "digital single market", removing **barriers to online trade in goods and services**. This could add as much as 4% to the EU's annual growth rate.

The **second objective** is to work for greater economic freedom throughout the world, using the bargaining strength of the EU as a whole. The most immediate prize is **an agreement with the United States on a transatlantic trading partnership (TTIP**). This should increase the EU's GDP by £51-114 billion and the UK's GDP by £4-10 billion.

The **third objective** is to help make EU business as a whole more competitive by **reducing bureaucracy and red tape**. A study by the International Monetary Fund (IMF) has estimated that bringing in the reforms Britain advocates could increase economic growth by 4.5%.

Inside the EU Britain has been, and will continue to be, a force for good. We can keep up the pressure to open up markets both within the EU and in the rest of the world; to resist the temptation of a protectionist "fortress Europe"; to promote free enterprise and a liberalised economy. If we quit we would lose our influence; and we, the rest of the EU and the wider world would be the poorer.

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