INTRODUCTION
GLOBALISATION: LOCAL AND SECTORAL IMPACTS

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While there is a broad understanding of the benefits to globalisation in the aggregate, attention has only recently begun to shift towards its distributional consequences. Regardless of the size of the benefits to the entire economy of increasing international trade, there may be winners and losers, both across sectors and across regions. Equally the process of de-coupling from the European Union is likely to affect some regions, sectors and types of household more strongly than others. This issue focuses on the local and sectoral impacts of globalisation, with new research from prominent experts in the field of international trade and industrial policy.

The past 25 years have been characterised by a surge in international trade as economies have become increasingly inter-linked. In many advanced economies this surge has been associated with increased import competition from low-wage economies. Foliano and Riley explore the effects of such competition on manufacturing jobs in the UK. They consider two developments that influenced the nature of international trade: the ascendency of China as an important player in global markets and the accession to the European Union of a number of Eastern European economies in 2004. Both of these changes were associated with a shift in trade regimes, led to a sharp rise in import competition in particular UK manufacturing sectors and are likely to have hastened the decline of UK manufacturing.

The value of trade to the domestic UK economy is an important issue which cannot be adequately measured by conventional trade flow data. Services exports are generally thought to bring higher value to the domestic economy than goods exports, because goods are more likely to contain parts imported from abroad, leaving a smaller share of domestic economic activity. The paper by Ebell *et al*. presents new and initial estimates of the value to the domestic economy of exports (direct domestic value added) for key business and financial service industries. Initial estimates suggest that at least 40 per cent of UK bank and building society exports in 2016 generated direct domestic value-added amounting to £14.6bn, of which £5.0bn came from exports to EU. The corresponding percentage of direct domestic value added for accountancy and legal services exports in 2014 was 80 per cent, amounting to £1.7bn and £5.2bn respectively, of which £500mn and £1.7bn came from exports to EU.

Dhingra, Machin and Overman's paper studies local economic impacts of the increases in trade barriers associated with a Brexit. Predictions of the local impact of Brexit are presented under two different scenarios, soft and hard Brexit, which are developed from a structural trade model. Average effects are predicted to be negative under both scenarios, and to be more negative under hard Brexit. The spatial variation in negative shocks across areas is higher in the latter case as some local areas are particularly specialised in sectors that are predicted to be badly hit by hard Brexit. Areas in the South of England, and urban areas, are harder hit by Brexit under both scenarios. Again, this pattern is explained by sector specialisation. Finally, contrary to the findings of other studies, the areas that were most likely to vote remain are those that are predicted to be most negatively impacted by a Brexit.

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The prospect of a Brexit has already induced a devaluation of sterling, which has already pushed up consumer prices. We also face the real possibility of a 'Most Favoured Nation' Brexit, that is, a return to WTO rules re-imposing tariffs at reduced MFN rates. The paper by Clarke *et al.* examines how the imposition of tariffs on imports from the EU will work through into consumer prices, concluding that, conservatively, it will increase the average cost of living by between 1 and 1.3 per cent and increase it for an eighth of households by 2 per cent or more. The authors present results for different groups of households according to their employment and structural characteristics and show that the impact will generally be largest on unemployed and single parent households.

The UK's automotive industry has been one of the 'star performers' of the UK economy in recent years – unlike most other manufacturing sectors. Output has increased by over 60 per cent since 2010 and there has been over £8 billion worth of investment in the industry in the past five years. The industry supports some 800,000 jobs in the UK. It is seen as having benefitted from EU membership. So what might Brexit mean for the UK automotive sector, and its workers? Bailey's and De Propris' paper considers short-run impacts, before turning to the impact of uncertainty on foreign direct investment inflows and then the nature of a possible trading relationship.

As we argued immediately after the referendum, "the intellectual journey taken by policymakers since 2007–8, in that less attention has been placed on the average but more on dealing with the tails of the distribution."[1] The economy tends to be buffeted as a result of aggregate shocks but their impact is not uniform. Different sections of the population feel the effects of these shocks in often quite different ways. The articles in this *Review* thus represent an important step along that journey and we hope that policymakers will continue to listen.

NOTE

See Chadha, J.S. (2016), 'Commentary: The Referendum Blues: shocking the system', *National Institute Economic Review*, 237, August, pp. 4–8.

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