Against all odds, it would appear that *some* progress has been made with regard to a possible deal that would see the UK leave the EU on the 31st October.

Securing an agreement in just 17 days is far from guaranteed and it seems likely that, even if some further progress is made, a short temporary delay – either to iron out any remaining administrative issues or to allow for a UK General Election – seems likely.

So what might this new deal mean for the Scottish economy?

The two sticking points in the negotiations over the last three years have been i) how to avoid a hard customs border on the island of Ireland and ii) how best to ensure that the UK's future economic relationship with the EU remains close, whilst at the same time giving the Brexiteers the ability to 'take back control'.

Whilst details on the exact proposal put forward by the UK Government remain sparse, and negotiations have entered a 'tunnel' which is Brussels jargon for a stage at which neither side seeks to leak the contents of the negotiation as frequently as they previously did, it would appear that the key components of the deal are in two parts.

Firstly, on the issue of the Irish border, the proposal appears to be once again for some sort of 'fudge' to avoid customs checks. This appears to be a mixture of practical reality and hope, based upon a similar proposal initially put forward by Theresa May as part of a EU-UK Customs partnership.

Under this idea, Northern Ireland would leave the EU customs union with the rest of the UK, but the UK would enforce the EU's customs rules and tariffs on goods moving from Britain to Northern Ireland. There would be a rebate system to compensate affected businesses.

Such a scheme has never been tried before, and it remains to be seen whether it will be acceptable either to EU or Northern Irish politicians.

Secondly, on the UK's future relationship with the EU, the UK Government's proposals now appear to be for the UK to have a much more distant relationship with the EU than proposed by Theresa May.

Far from having a shared customs territory or close regulatory alignment, the UK Government's new proposal is for a much harder Brexit –

"The Government intends that the future relationship should be based on a Free Trade

Agreement in which the UK takes control of its own regulatory affairs and trade policy." Letter from Boris Johnson to Jean-Claude Juncker, 2nd October 2019

So what might this mean for the Scottish economy?

Under such a scenario, the consequences for the Scottish economy are likely to be toward the higher end of the Brexit spectrum in terms of long-term negative impact on the economy.

Updated estimates from the UK in a Changing Europe think tank put GDP per capita some 6.4% lower than it otherwise would have been in the long-run (taken to be 10 years after EU Exit) compared to a situation where the UK remained in the EU. This compares to 4.9% lower under Theresa May's deal and 8.1% under a 'no deal' scenario.

This figures are not dissimilar to our own modelling for Scotland. We estimate that a standard free trade arrangement – which the new UK Government plan is not a million miles away from – would lead to Scottish GDP being around 4% lower after 10 years compared to a scenario where Scotland and the UK remained in the EU. Under a 'no deal' the impact is -6%.

Of course, some will argue that such modelling does not take into account the possibility of new trade deals with 3rd countries and the opportunity for the UK to use its new 'economic independence' to set a more competitive regulatory and tariff regime.

This is of course, true.

It is also true that there are other wider macroeconomic factors determining where the UK economy will be in 10 years (so these estimates are not to say that the UK economy will be 6.4% smaller in 2029 than now, rather 6.4% smaller than it otherwise would have been).

But as we have argued before, hoping that life for the UK as a stand-alone trading nation will provide abundant opportunities for growth are likely to be misplaced.

Trade deals with other countries are exceptionally complex to negotiate and are by no means guaranteed. Even if secured, their value is likely to be a fraction of trade with the EU (currently EU exports account for around 45% of Scottish international exports). Exports to the EU are worth more than those to North America, Asia, South America and the Middle East combined, with 9 of Scotland's 10 largest export markets in the European Economic Area. Trade deals with the US and China are possible, but at what price?

Moreover, whilst there are undoubtedly some areas where businesses might wish for looser regulations in a post-Brexit world, it is important not to overestimate their scale or possible impact. According to the World Bank, the UK is already ranked 9th in terms of 'ease of doing business'. And the UK is already one of the most 'competitive' countries in the world in terms of its use of product regulations and employment rights.

At the same time, there is likely to be demand from consumers and workers to maintain, and even enhance, existing standards.

The optimism that surrounds the potential for a deal to be struck between the UK and the EU needs therefore to be taken with a large degree of realism. Avoiding the worst possible outcome of a 'no deal' is clearly desirable. But if current plans – as appear to being developed – come to fruition, then the challenges to come are likely to be significant.