The Centre for Cross Border Studies

EU Referendum Briefing Papers

Briefing Paper 5

The UK Referendum on EU Membership: Economic Development

co-operationireland

working for a future together

Introduction

The decision that citizens in all parts of the United Kingdom will make on the 23rd of June will determine whether the border between Ireland and Northern Ireland remains an internal European Union border, or whether it becomes an external border between an EU Member State and a UK that has voted to leave. While the ultimate impact would depend on the shape and detail of any new relationship negotiated between the UK and the EU, Brexit has the potential to affect significant aspects of North-South and East-West relations, as well as our relations with the nations of the European Union in continental Europe.

In the run-up to the referendum, the Centre for Cross Border Studies and Co-operation Ireland are publishing a series of briefing papers which aim to inform debate by exploring the potential impacts on Northern Ireland and North-South relations. The first paper in this series provided an overview of the potential consequences of a 'leave' vote for future co-operation and peace building across the island.[1] The second focused in greater depth on possible constitutional and political impacts, particularly what implications a UK departure from the EU may have for key political and legal instruments underlying the Northern Ireland peace settlement,[2] whilst the third examined the EU's role in supporting cross-border cooperation and how Brexit may affect such cooperation. The fourth paper examined the question of free movement, setting out how that principle operates within the EU and how it relates to the Common Travel Area, an arrangement between the UK and the Republic of Ireland for free movement of Irish and UK citizens between the two jurisdictions that predates the EU and their accession to it. It concluded by identifying some of the potential consequences to the free movement of people and the Common Travel Area if the UK were to leave the EU, as well as highlighting some of the changes agreed in principle to the issue of free movement by the EU that would be implemented if the UK decided to remain.

In this fifth and last paper in our series we will consider the question of economic development. However, the issue of the future of the UK and Northern Ireland's economy in the event of a Brexit is perhaps the most contested, with radically contradictory arguments on how the economy would fare outside the EU. This is in large part due to not knowing what arrangements would be put in place as a result of the negotiations between the UK Government and the EU following a formal declaration to the European Council of the UK's departure. It is also as a result that the arguments on both sides are necessarily based on economic forecasts, which by their very nature cannot be seen as definitive. The future performance of the economy of the UK and Northern Ireland, of the EU, or of any other economic bloc or nation cannot be predicted with absolute certainty given that any number of unpredictable events can affect the global, regional or national economies.

Therefore, in this paper we will limit ourselves to setting out the past and current performance of key economic actors relevant to the debate, before offering an overview of some of the possible models the UK may adopt in terms of formal trading relations with the EU if it were to leave the European Union, including the option of not having any formal relation at all.

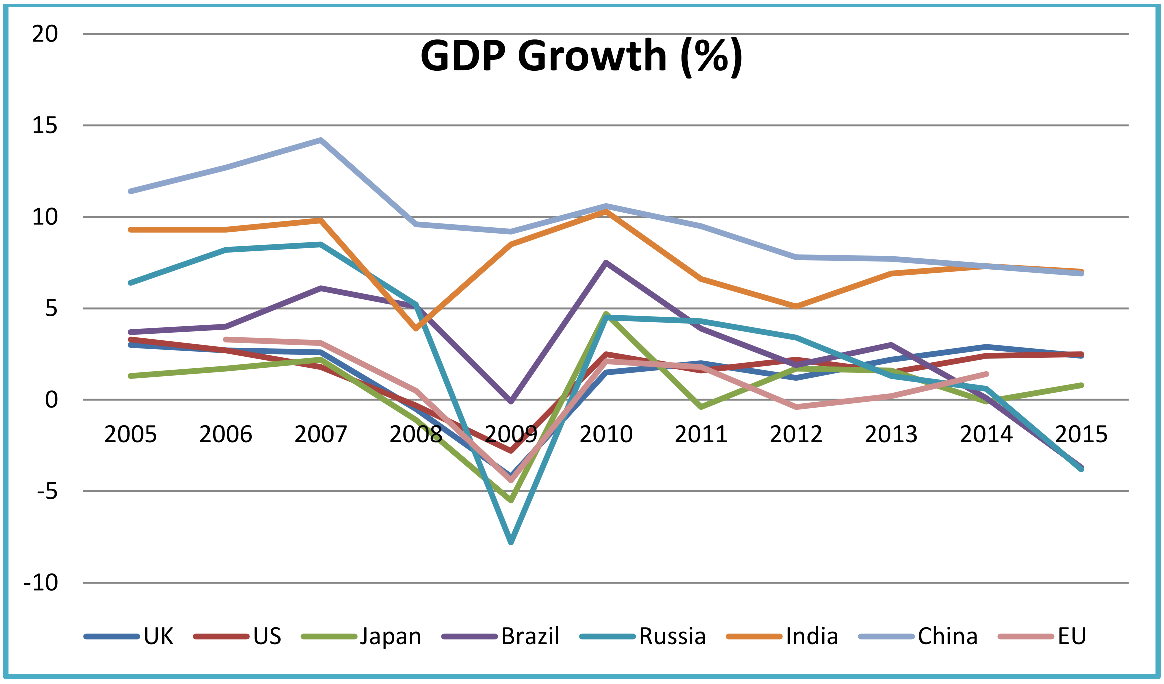
[1] Centre for Cross Border Studies and Co-operation Ireland, 2016. The UK Referendum on Membership of the EU: What does it mean for us? EU Referendum Briefing Paper 1. Available at http://crossborder.ie/eu-referendum-briefing-paper-series/

[2] Centre for Cross Border Studies and Co-operation Ireland, 2016. The UK Referendum on Membership of the EU: Potential Constitutional Consequences. EU Referendum Briefing Paper 2. http://crossborder.ie/site2015/wp-content/uploads/2016/03/EU-Referendum-Briefing-Paper-2.pdf

GDP Growth

Using World Bank figures in order to provide a comparison we can see in the following graph the respective rates of growth in Gross Domestic Product (GDP) from 2005 to 2015 of the UK, the US, Japan, Brazil, Russia, India, China,[3] and the EU.[4]

Figure 1



From the above we can see that in 2006 the UK's rate of GDP growth was 2.7, compared to the EU average of 3.3, but that at the height of the global financial crisis in 2009 the UK's rate stood at -4.2% and the EU average at -4.4. By 2014, the UK's growth rate had recovered to 2.9%, almost double that of the EU average, which stood at 1.4%.

We can also note that the developing economies of Brazil, Russia, India and China were experiencing significant rates of GDP growth prior to the financial crisis (with China peaking at 14.2% in 2007), and that the effects of that crisis were felt to different extents in those countries.

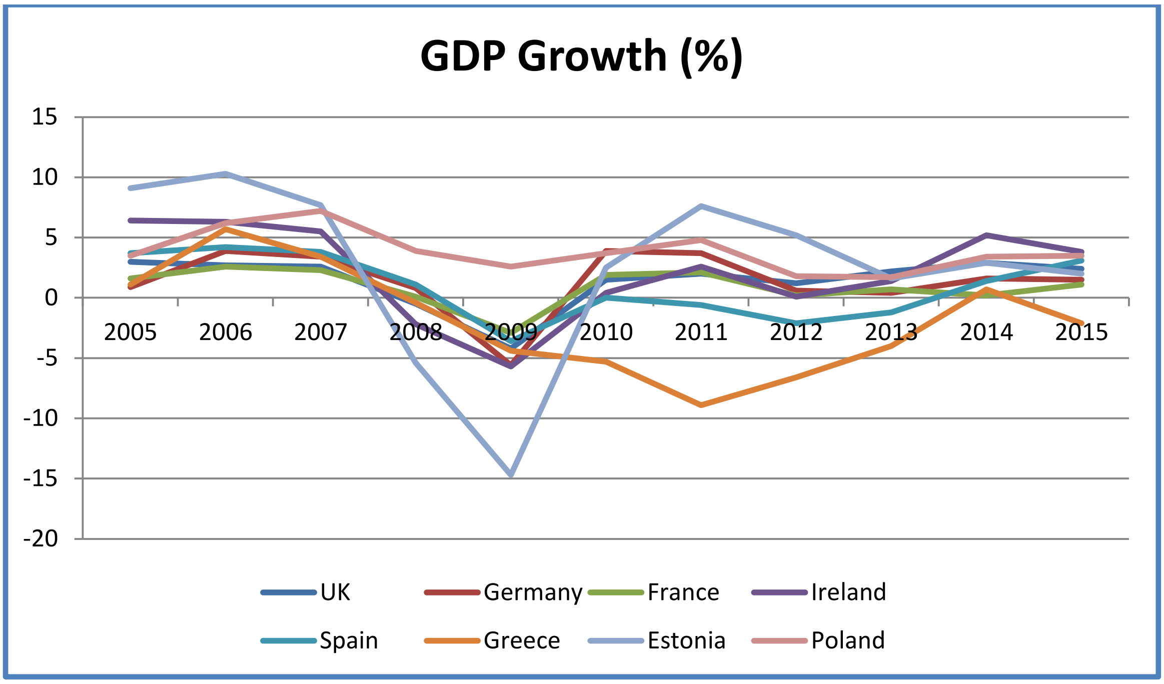
However, we also need to consider that the remarkable growth rates experienced in the developing economies included above should be seen as in part due to their gradual introduction of industrial developments and economic frameworks already in existence in other world economies, including those of the UK, US and Japan, for example.

Additionally, the above graph shows the EU average rate of growth, taken from the rates of growth of its constituent 28 Member States, including the UK. In order to illustrate the differentials in economic performance within the EU over the same period (2005-2015), the following graph charts GDP growth rates of a selection of the Member States.

[3] World Bank, http://data.worldbank.org/country. It is important to note that the World Bank's figures for 2014 and 2015 were based on forecasts.

[4] The series relating to the EU starts from the year 2006 and ends in the year 2014; Word Bank, http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/EU?display=graph.

Figure 2

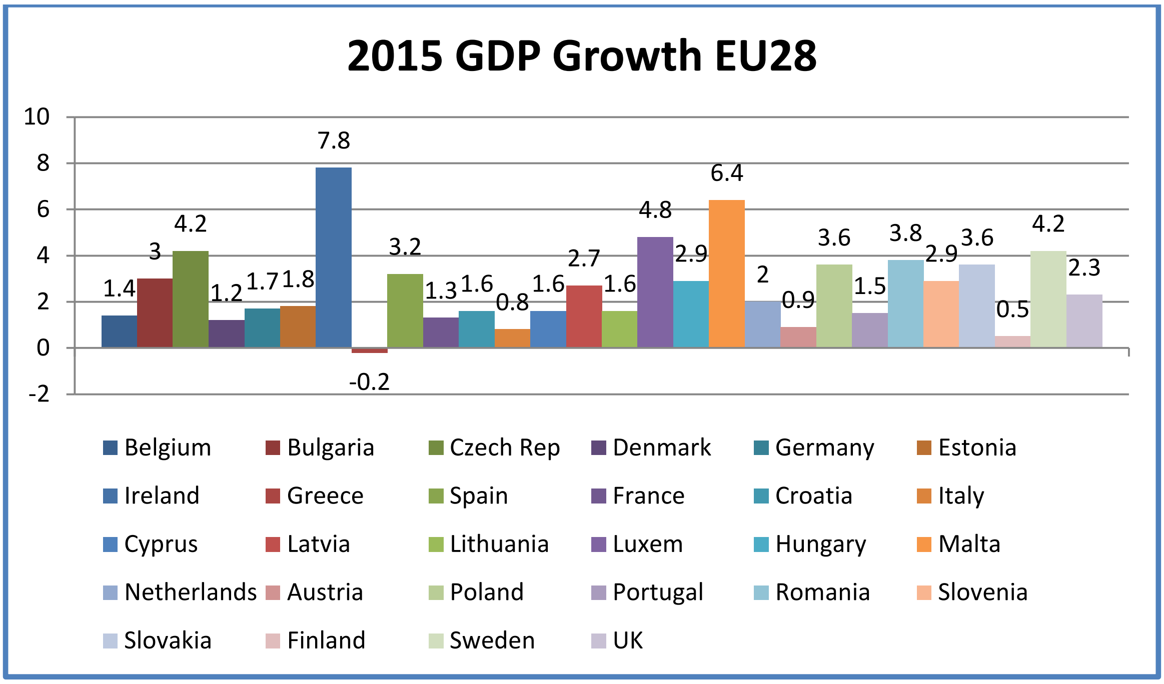


The figures show that in 2005 three other EU Member States were experiencing higher GDP growth rates than the UK's 3%: Poland (3.5%), Spain (3.7%), and Ireland (6.4%). At the height of the global financial crisis four other EU Member States suffered greater shrinkages in the growth of their GDP, which in the UK stood at -4.2%: Estonia (-14.7%), Ireland (-5.7%), Germany (-5.6%), and Greece (-4.4%). By 2015, whilst the UK's GDP growth rate stood at 2.4%, the rates in Spain, Poland and Ireland were in excess of that of the UK's, at 3.1%, 3.5% and 3.8% respectively.

Focusing on 2015 GDP growth rates in the EU using data from the EU's own statistical agency,[5] Figure 3 charts the position of each of the 28 Member States.

[5] Eurostat, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00115. Here, the figures are largely definitive, with a small number based on provisional estimates. Ireland's 7.8%, for example, is not provisional or a forecast, unlike the figures from the World Bank used earlier.

Figure 3



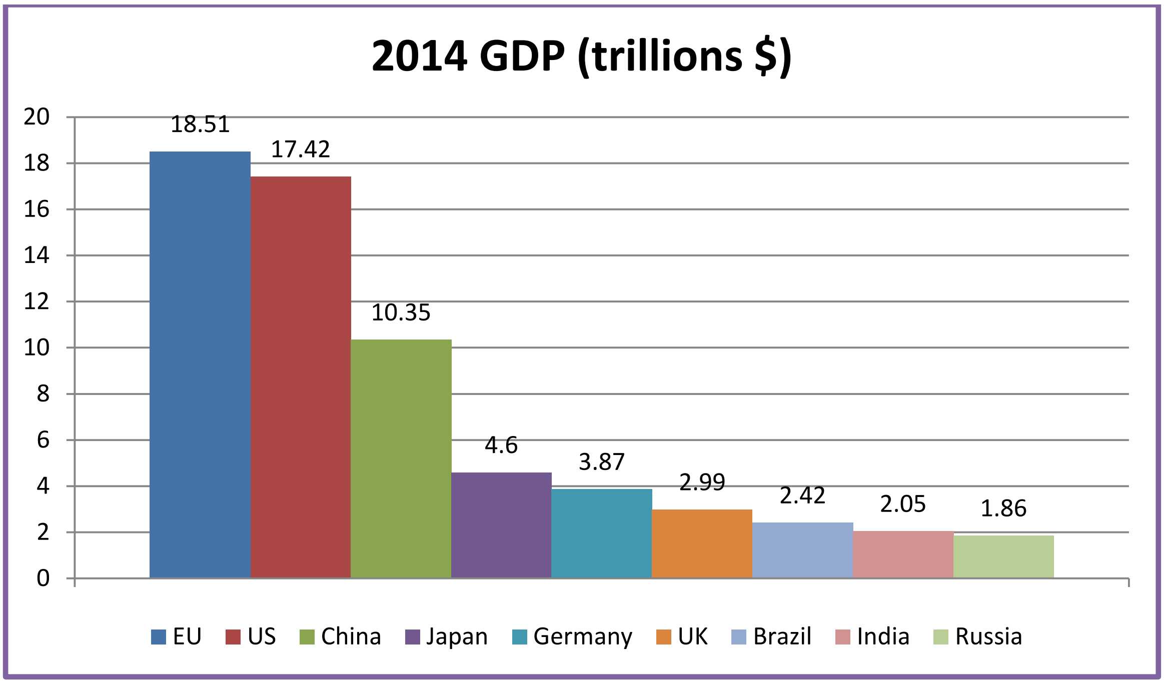
According to the EU's statistical agency, in 2015 Greece was the EU Member State with the worst growth figures, showing a contraction of -0.2%. The average 2015 GDP growth rate for the 28 Member States was 2%, with the UK performing marginally better at 2.3%. However, the UK's growth rate was significantly lower than those of the best performing EU Member States, which was topped by Ireland at 7.8%, with the next four in the top five represented by Malta (6.4%), Luxembourg (4.8%), and the Czech Republic and Sweden (both at 4.2%).

GDP Rankings

The previous section offered an overview of how a selection of economies was performing in relation to the rates of growth of their economies. However, this does not gives us an insight into the relative sizes of their economies, which means that a high level of GDP growth rate may be related to a relatively small economy in terms of its overall GDP. Therefore, the following charts take the same selection of countries as in the previous section, and show their total GDP in 2014, as well as showing the top ten countries in terms of total GDP.[6]

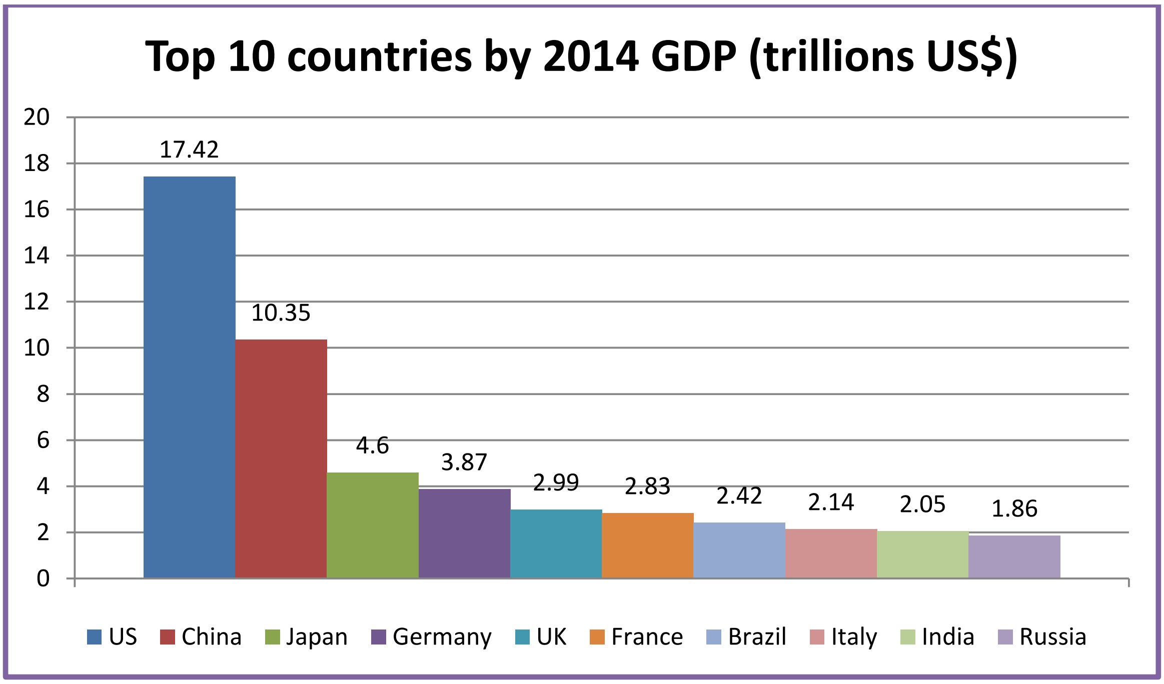
[6] World Bank, GDP ranking, http://data.worldbank.org/data-catalog/GDP-ranking-table.

Figure 4



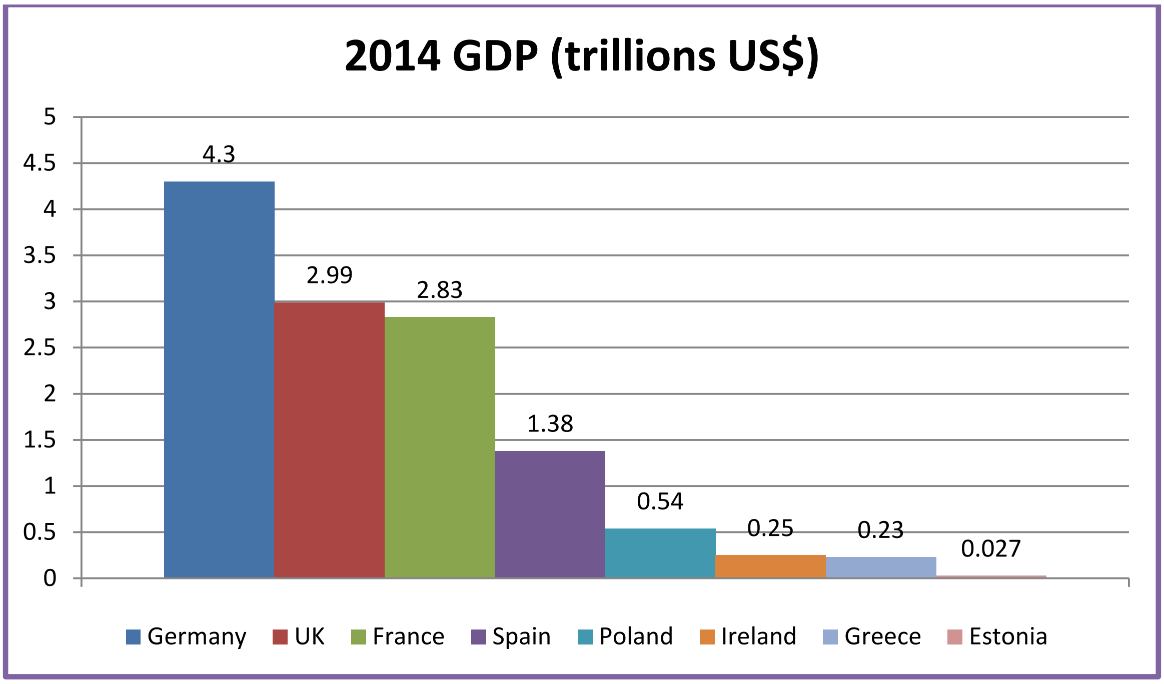
The above chart takes the same selection of countries used in Figure 1 in the previous section, and includes the EU. However, as was the case in terms of the EU's inclusion when looking at rates of GDP growth, in this chart the EU figure corresponds to the total GDP of its 28 Member States including that of the UK. Nevertheless, we can see here that Germany's 2014 GDP (3.87 trillion US$) exceeded that of the UK's (2.99 trillion US$). If we discount the EU total GDP figure and look instead at the top ten countries in terms of 2014 total GDP, the picture is as seen in the following chart.

Figure 5



Within the top 10 we see Germany ranked at fourth, the UK fifth, but we can also see two further EU member states appearing: France in sixth and Italy in eighth. If we focus on the EU itself and the 2014 GDP of some of its constituent Member States using the same selection as in Figure 2 in the previous section, we observe the following:

Figure 6



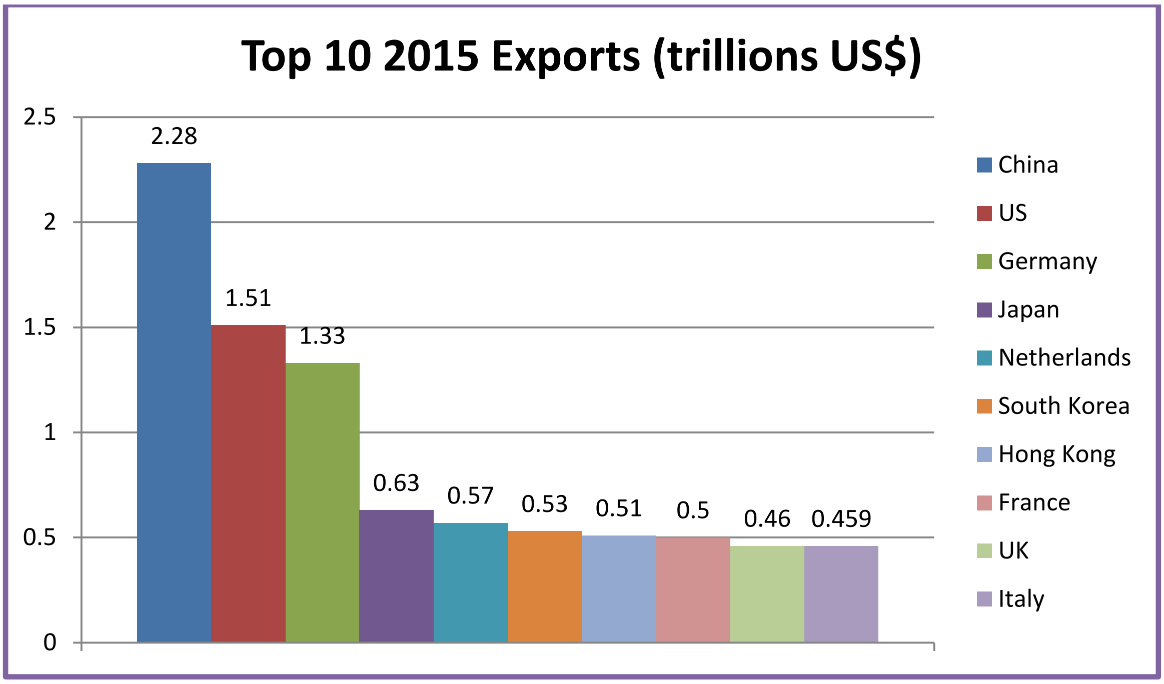
It was seen in the previous section on rates of GDP growth that in 2015 Spain, Poland and Ireland were growing at a faster rate than the UK. However, here we can see that particularly in the cases of Poland and Ireland those rates of growth relate to a significantly lower overall GDP than the UK's.

Export Performance

The top ten exporting countries in 2015 in terms of value of products exported can be seen in Figure 6.[7]

[7] Statista, http://www.statista.com/statistics/264623/leading-export-countries-worldwide/.

Figure 6



In 2015 the UK lagged behind three other EU Member States (Germany, the Netherlands and France) in terms of total exports, with Italy following closely behind. In other words, other countries appear to be able to outperform the UK in terms of export performance despite being within the EU and subject to the same EU regulations and constraints.

Given the importance of improving export performance to developing economies with high growth, and how some of the arguments in favour of the UK leaving the EU are based on the belief that EU membership hampers the UK's ability to grow its exports to countries like China and India, the following charts set out the top exporting counties to China and India in 2014.[8]

[8] OEC, "Where does China import from? (2014)", http://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/chn/show/all/2014/; OEC, "Where does India import from? (2014), http://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/ind/show/all/2014/.

Figure 7

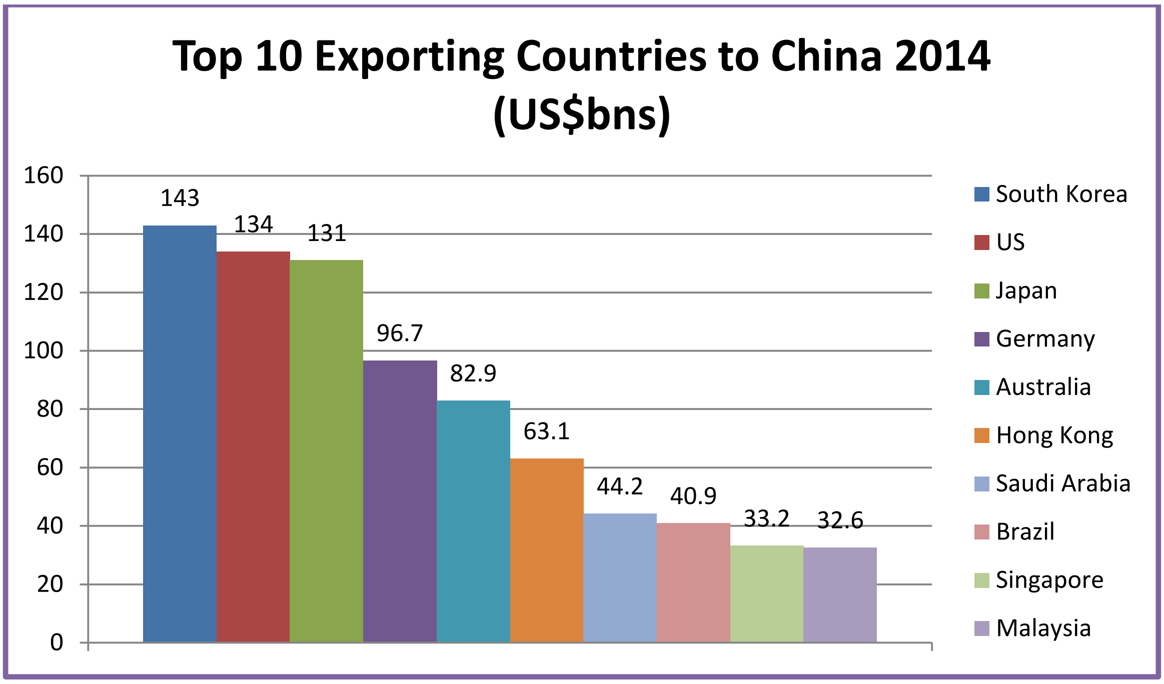
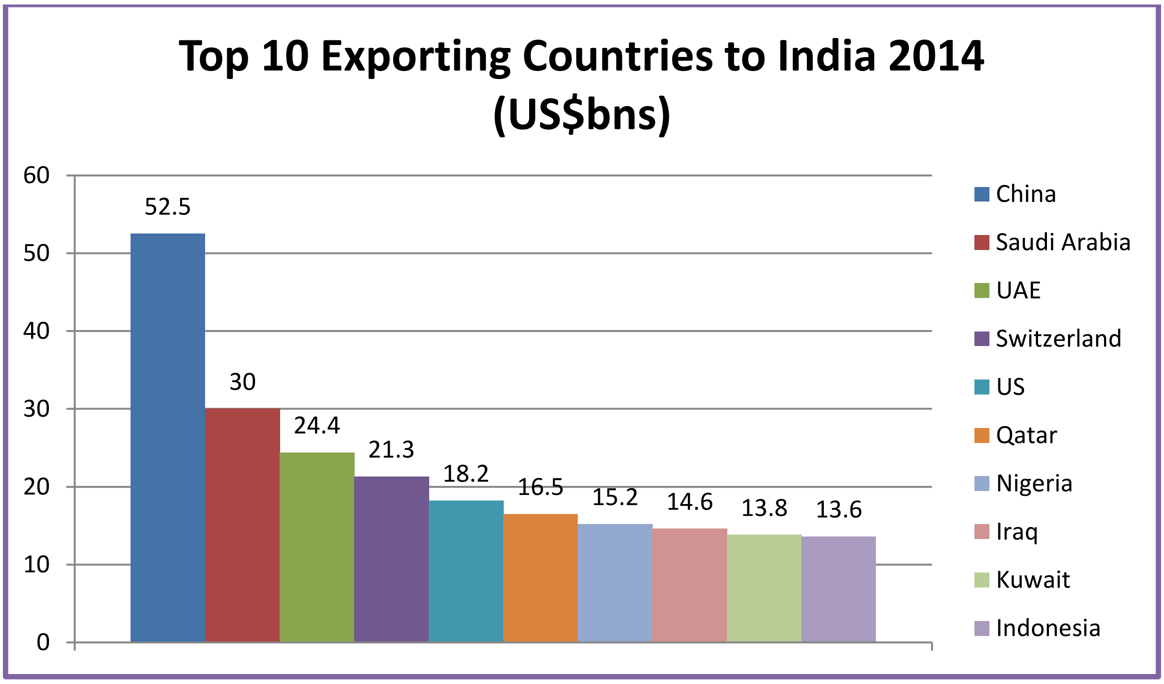


Figure 8



The UK does not figure within the top 10 exporting countries to either China or India in 2014, with Germany appearing as the fourth largest exporter to China (US$ 96.7bn), but with no EU Member State within the top 10 exporters to India. However, for both China and India the major product imported is crude petroleum (13% of all imports for China, and 29% for India).

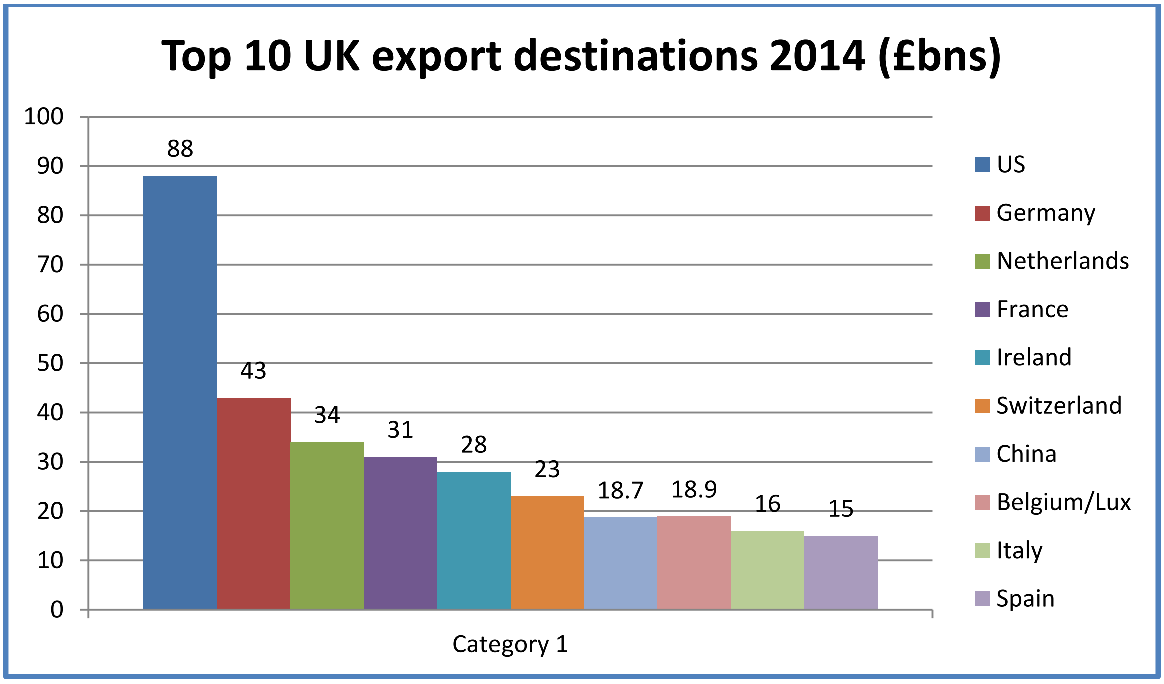
The UK's total exports to China in 2014 were worth US$ 26.8bn,[9] with 35% of those exports being cars and 17% gold. France, another EU Member State, exported US$ 22.4bn worth of goods to China, with 27% of those goods being planes, helicopters and spacecraft. Meanwhile, Germany's largest exports to the Chinese market in 2014 were cars (17%) and vehicle parts (11%).

The only European country to feature in the top 10 of exporting countries to India in 2014 is Switzerland – a non-EU country. It appears as the fourth largest exporter to India, with goods worth US$ 21.3bn, but those goods are made up almost exclusively of gold (89%). Outside the top 10, Germany appears as the highest exporter amongst the EU Member States (US$ 11.6bn), followed by the UK (US$ 5.44bn), Italy (US$ 4.17bn) and France (US$ 3.48bn).

UK and Northern Ireland Export Destinations

In 2014 the top country for UK exports was the United States, which took 17% of UK exports worth £88 billion. However, if we observe the top 10 countries for UK exports there is a significant presence of other EU Member States.[10]

Figure 9



In general terms, as highlighted by a House of Commons Library Briefing Paper, "The EU, taken as a whole, is the UK's major trading partner, accounting for 44% of exports".[11]

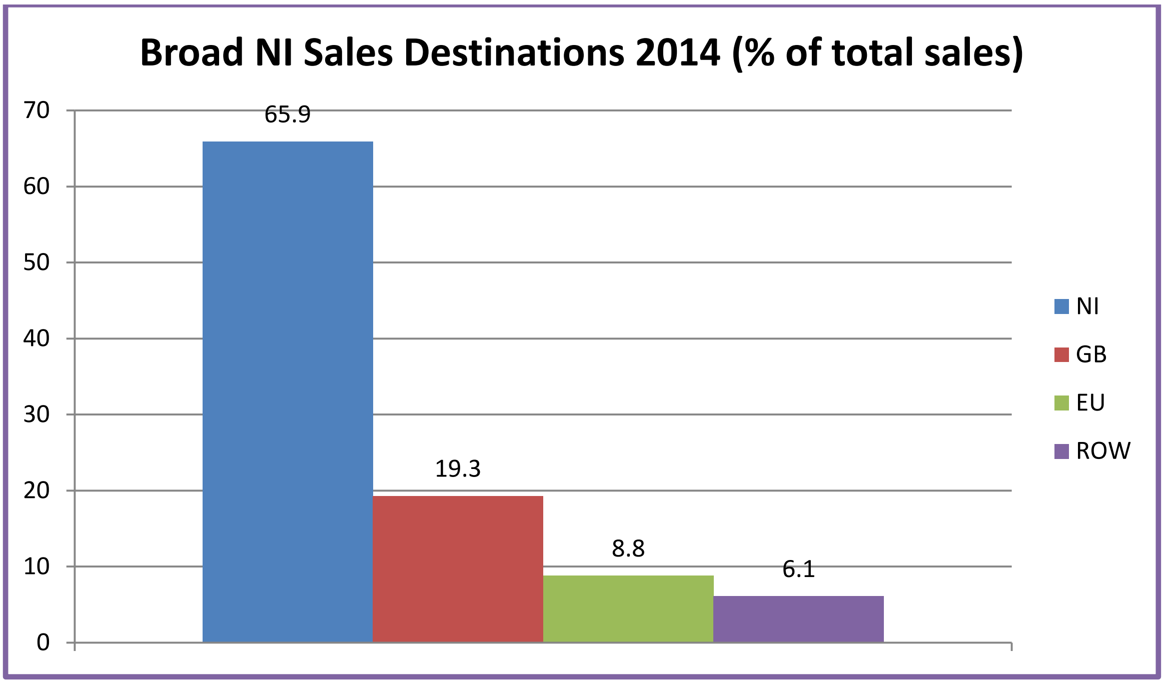
The broad destinations of Northern Ireland total sales in 2014 show that in common with the UK as a whole the EU is the most significant destination for exports.

[9] In 2015 the UK's exports to China were worth £15.9bn, as reported in a House of Commons Library Briefing Paper, "In brief: UK-EU economic relations" (13 June 2016), http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06091.

[10] Office for National Statistics, "UK Perspectives 2016: Trade with the EU and beyond", http://visual.ons.gov.uk/uk-perspectives-2016-trade-with-the-eu-and-beyond/.

[11] House of Commons Library Briefing Paper, "In brief: UK-EU economic relations", p.3.

Figure 10



It is noticeable how in terms of Northern Ireland's total sales (with a total value in 2014 of £65,800 million) the majority are within Northern Ireland itself (65.9%), with the second most important destination being Great Britain (19.3%). Only 14.8% of Northern Ireland goods were exported in 2014: 59.1% of those exports were to the EU, with the other 40.9% going to the rest of the world.[12]

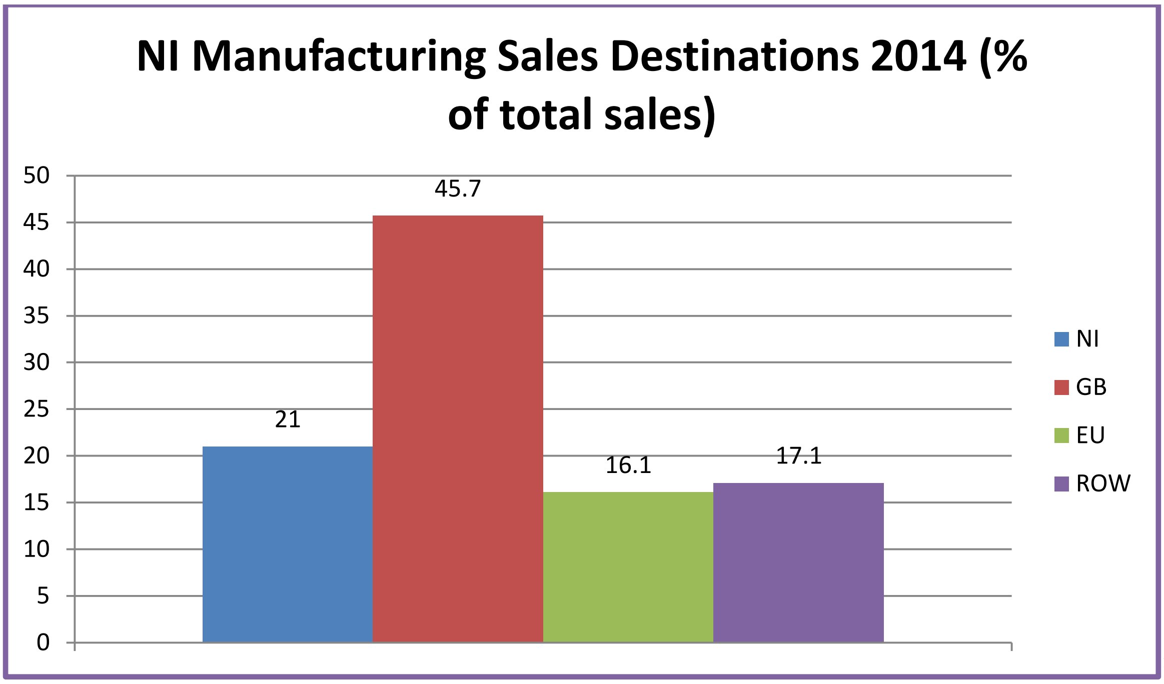
Of Northern Ireland's total sales in 2014 to the EU, 62.3% (worth £3,599 million) were to the Republic of Ireland alone, making it the single most important destination within the EU. Indeed, the significance of the 2014 trade in manufactured goods between the two jurisdictions on the island of Ireland is valued at £2,448.5 million, with the larger proportion of that total trade going from Northern Ireland to the Republic of Ireland (£1,414.4 million, or 57.85).[13] The next most important EU Member States in 2014 for Northern Ireland total sales were Germany (£508 million), France (£448 million), and the Netherlands (£422 million).

In sectoral terms, for both manufacturing and the agri-food industry in Northern Ireland the EU is an important destination for exports. This is particularly the case in terms of the agri-food industry, as can be seen in the following charts.

[12] NISRA, "Northern Ireland Broad Economy Sales and Exports Statistics: Headline Results 2014" (17 February 2016); https://www.economy-ni.gov.uk/sites/default/files/publications/deti/BESES-Publication-2014-Headline-results_0.pdf.

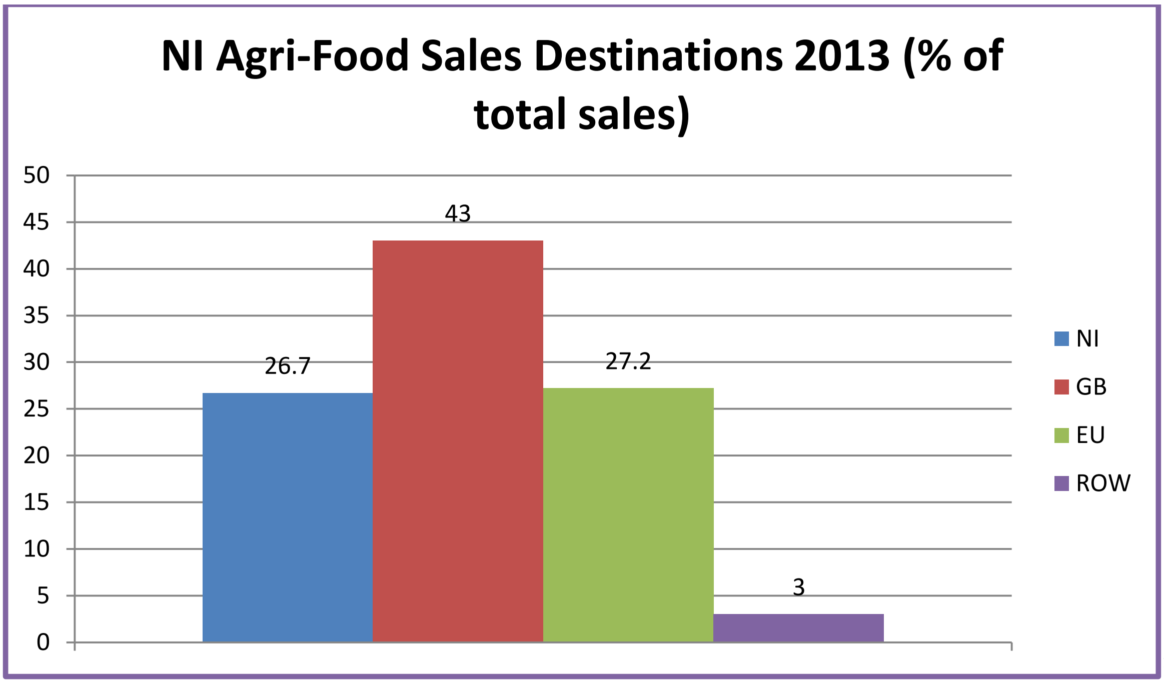
[13] InterTradeIreland, Cross-border trade in manufacturing, http://www.intertradeireland.com/researchandpublications/trade-statistics/total_cross_border_trade/.

Figure 11



[14]

Figure 12



[15]

From the above charts we can see that for both the Northern Ireland manufacturing and agri-food sectors the internal UK market is the most important, which supports the calls for improvements in

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[14] NISRA, "Northern Ireland Manufacturing Sales & Exports Headline Results 2014" (16 December 2015); https://www.economy-ni.gov.uk/sites/default/files/publications/deti/BEE%20Manufacturing%20Publication%202014%20-%20Headline%20results_2.pdf.

[15] Department of Agriculture and Rural Development, "Size and Performance of the Northern Ireland Food and Drinks Processing Sector, Subsector Statistics 2013, with provisional estimates for 2014", https://www.daera-ni.gov.uk/sites/default/files/publications/dard/size-performance-ni-food-drink-2013-14.pdf.

Northern Ireland's export performance. However, we can also note that whilst the EU market is an important export destination for both sectors, manufacturing sales to the rest of the world exceeded those to the EU in 2014 by 1%, but the EU market far outweighs the importance of non-EU export destinations for the agri-food sector. Again, as in the picture for overall Northern Ireland sales, for both the manufacturing and the agri-food sector the Republic of Ireland is by far the most important export destination within the EU (representing 48.5% of total sales to the EU by the manufacturing sector, and 57.4% of agri-food sales to the EU).

UK-EU Trading Models Post-Brexit

If the UK decides to leave the EU on the 23rd of June, a post-Brexit UK Government will have to decide which form of trading relationship it wants to establish with the EU, including whether it wants to have no formal relationship at all. The consequences of that choice will be felt in Northern Ireland, as well as in the Republic of Ireland, given the importance of the UK market to the latter's exports. In this concluding section we will offer a brief overview of some of the possible models.

Some in favour of a UK withdrawal from the EU have looked to the other free trade arrangements secured by non-Member European states and others, as alternatives to EU membership, these include: the Norwegian Model, the Swiss model, the Turkish model and the WTO model.

Norway is, in many ways, simultaneously both outside and inside the EU.[16] By way of a series of agreements, particularly the European Economic Area (EEA) Agreement, Norway is part of the free trade area with the EU, shares equal access to the Single Market, and allows for free movement, as part of the Schengen border-free area. While being a non-Member of the EU, Norway collaborates with the EU over defence, security, fisheries and agriculture. However, Norway has limited influence in the direction of these common policies. While Norway can attempt to influence legislation, it does not have the right to make or amend proposals to policy areas which affect, nor to vote on them. Moreover, to gain access to the Single Market, among other things, EEA countries are required to make annual financial contributions to the EU.[17] Looking at its recent contributions, Norway provided the vast majority of EEA contributions, around £586 million in 2014, or £115 per capita.[18]

Switzerland, like Iceland, Norway and Liechtenstein, is in the European Free Trade Association (EFTA) but is not an EU Member State, nor is it a member of the EEA. Since the 1950s Switzerland has concluded a large number of bilateral treats with the EU. It has tariff free access to the Single Market goods but has no agreement on services, such as financial services. In terms of trade, Switzerland is able to pursue an independent trade policy with countries outside the EU. As with the EEA countries, Switzerland contributes to enlargement costs "to reduce economic and social disparities", and the

[16] House of Commons Library: Norway's relationship with the EU, Available here: http://researchbriefings.files.parliament.uk/documents/SN06522/SN06522.pdf
[17] House of Commons Library: Exiting the EU: UK reform proposals, legal impact and alternatives to membership, Available here: http://researchbriefings.files.parliament.uk/documents/CBP-7214/CBP-7214.pdf
[18] Norway Mission to the EU, Norway's Financial Contribution. Available here: http://www.eu-norway.org/eu/Financial-contribution/#.V2f19NIrJ9N

EU programmes to which it participates. In 2009, Switzerland's contribution was around 600 million francs, £420 million per annum, or £53 per head.[19]

Turkey's arrangement with the EU is based upon an economic agreement and its candidacy for EU membership. Since 1963 Turkey and the EU have had a trade and economic-based 'Association Agreement'. Turkey has merely partial access to the Single Markey, which cover industrial goods and processed agricultural goods. Yet, these arrangements do not cover raw agricultural goods or services. Turkey is required to enforce rules that are equivalent to those in the EU in areas where it has access to the Single Market. In terms of freedom of movement, Turkey's Association Agreement provides some limited migration rights for Turkish nationals to reside in the EU. Although Turkey can agree trade agreements with non-EU states, as part of the Customs Union, Turkey's external tariffs must be aligned with EU tariffs. Also, Turkey has no role in EU decision-making. However, it does not contribute to the EU budget.[20]

A World Trade Organisation (WTO) model represents a minimum threshold and thereby offers a definitive break with the EU.[21] In the event that the UK failed to reach an agreement on superior terms, it would be required to revert to the WTO model. This model offers no preferential access to the Single Market, or alignment with common EU policy, any obligations for budgetary contributions or free movement of people. Under this model the UK would be likely to face immediate and significant costs to its existing trading relations, both with the EU and with the wider world, as the EU imposes a common external tariff on countries outside, except with those who have negotiated preferential trade agreements. Under a WTO arrangement the UK would have no say over EU decisions, beyond the limited indirect influence through diplomatic contact alongside other international organisations such as the G20, IMF and the UN.[22]

[19] Based upon information provided by the Swiss Government in its 2009 brochure Bilateral agreements Switzerland-EU Available here:
http://www.europarl.europa.eu/meetdocs/2009_2014/documents/deea/dv/2203_07/2203_07en.pdf

[20] HM Government, Alternatives to membership: possible models for the United Kingdom outside the European Union, Available here:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504604/Alternatives_to_membership_-_possible_models_for_the_UK_outside_the_EU.pdf

[21] World Trade Organization, United Kingdom and the WTO, available here:
https://www.wto.org/english/thewto_e/countries_e/united_kingdom_e.htm

[22] HM Government, Alternatives to membership: possible models for the United Kingdom outside the European Union, Available here:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504604/Alternatives_to_membership_-_possible_models_for_the_UK_outside_the_EU.pdf