The Centre for
Cross Border Studies

Briefing Paper
Brexit and Economic Development
EU Referendum Briefing Paper 5 *Update*

Editorial Note

The Centre for Cross Border Studies and Co-operation Ireland Briefing Paper series

In the run-up to the United Kingdom's referendum on membership of the European Union in June 2016, the Centre for Cross Border Studies (CCBS) and Co-operation Ireland published a series of briefing papers which aimed to inform debate by exploring the potential impacts of an eventual Brexit on Northern Ireland and North-South relations.

Five briefing papers were published in this series: the first 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 on possible constitutional and political impacts in terms of the key political and legal instruments underlying the Northern Ireland peace settlement; [2] the third examined the potential effects of Brexit on cross-border cooperation and the EU's role in supporting it; [3] and the fourth paper reflected upon the potential effects on the free movement of citizens, [4] particularly as it relates to the Common Travel Area. [5]

The Present Publication

This publication is an update of the fifth and last paper in the series, originally published in June 2016, in which we considered the question of economic development.[6] Its purpose is two-fold: to update the statistical information included and analysed in the original Briefing Paper, and to consider the UK Government's approach to trade in the recently commenced Brexit negotiations.

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[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

[3] Centre for Cross Border Studies and Co-operation Ireland (2016) "The UK Referendum on Membership of the EU: Cross-Border Cooperation, Peace-Building and Regional Development". EU Referendum Briefing Paper 3. http://crossborder.ie/site2015/wp-content/uploads/2016/06/CCBS-Cooperation-Ireland-EU-Referendum-Briefing-Paper-31.pdf

[4] Centre for Cross Border Studies and Co-operation Ireland (2016) "The UK Referendum on Membership of the EU: Citizen Mobility". EU Referendum Briefing Paper 4. http://crossborder.ie/site2015/wp-content/uploads/2016/06/CCBS-and-Cooperation-Ireland-EU-Referendum-Briefing-Paper-4.pdf

[5] 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.

[6] Centre for Cross Border Studies and Co-operation Ireland (2016) "The UK Referendum on EU Membership: Economic Development". EU Referendum Briefing Paper 5. http://crossborder.ie/site2015/wp-content/uploads/2016/06/EU-Referendum-Briefing-Paper-5.pdf

Introduction

The decision that citizens in all parts of the United Kingdom made on the 23rd of June 2016 determined that the border between Ireland and Northern Ireland will become an external border between an EU Member State and the UK. While the ultimate impact will depend on the shape and detail of any new relationship negotiated between the UK and the EU, Brexit undoubtedly affects significant aspects of North-South and East-West relations, as well as our relations with the nations of the European Union in continental Europe.

The issue of the future of the UK and Northern Ireland's economy as a result of Brexit has been perhaps the most contested aspect of the debate, with radically contradictory arguments on how the economy will fare outside the EU. This is in large part due to not knowing what arrangements may be put in place as an outcome of the ongoing negotiations between the UK Government and the EU. It is also a result of the arguments on both sides being 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 and/or national economies.

Over the past year, and after much initial speculation on the possible models for the future relationship between the United Kingdom and the European Union, particularly on UK-EU trading relations post-Brexit, it has become clear that the UK government is taking a course towards what has been widely referred to as a 'hard Brexit'. The Great Repeal Bill White Paper (HM Government, 2017a) and the Prime Minister's letter to the European Council President Tusk, notifying of the United Kingdom's intention to withdraw from the European Union (March 2017) each outlined the intent to leave both the single European market (SEM) and the European customs union.[7] Commentators have noted that the UK leaving the single market was inevitable since the referendum had been framed as a rejection of the fundamental principle of the free movement of people – a principle understood as an essential requisite for single market membership by the rest of the EU.[8] Furthermore, the desire to leave the European customs union is justified by the government as affording the UK the freedom to set its own trade regime, allowing it to seek trading agreements with other countries.[9]

Another White Paper published by HM Government in February 2017, 'The United Kingdom's exit from and new partnership with the European Union', sets out the 12 principles expected to guide

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[7] Department for Exiting the European Union (2017) "Legislating for The United Kingdom's Withdrawal from the European Union". Crown Copyright. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/604516/Great_repeal_bill_white_paper_accessible.pdf; Prime Minister's Letter to European Council President Donald Tusk, triggering Article 50. March 29th, 2017. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/604079/Prime_Ministers_letter_to_European_Council_President_Donald_Tusk.pdf

[8] Mello, B. (2017) "Theresa May confirms it'll be a hard Brexit – here's what that means for trade". Available from: http://theconversation.com/theresa-may-confirms-itll-be-a-hard-brexit-heres-what-that-means-for-trade-71417

[9] Department for Exiting the European Union (2017) "The United Kingdom's exit from and new partnership with the European Union". Crown Copyright. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589189/The_United_Kingdoms_exit_from_and_partnership_with_the_EU_Print.pdf

negotiations with the EU over Brexit.[10] Here, a priority, defined as protecting the UK's 'strong historic ties with Ireland and maintaining the Common Travel Area' features high on an agenda that also includes 'ensuring free trade with European markets', 'securing new trade agreements with other countries' and 'controlling immigration'.[11] The desire to ensure that the 'historic relationships' with Ireland, including cross-border trade, remain as undisturbed as possible after Brexit is strongly emphasised, and so is the commitment to:

> work with the Irish Government and the Northern Ireland Executive to minimise frictions and administrative burdens and to find a practical solution that keeps the border as seamless and frictionless as possible, recognising the unique economic, social and political context of the land border between Northern Ireland and Ireland (HM Government, 2017b: 75).

Arguably, this commitment represents a response to a widespread concern among political, business and civil society circles on the island of Ireland, but also in Britain and Europe, with both protecting the peace process in Northern Ireland and retaining as far as possible the ease with which the devolved region currently trades with EU member states, and particularly with Ireland.[12] Indeed, a look at the HMRC trade data (which we return to later) suggests that trade with the EU constitutes a far more important aspect of the Northern Ireland economy than it does for the UK as a whole.[13] Notwithstanding the general consensus on the importance of 'the Irish question', there remains a conundrum as to how to reconcile the apparent common will for maintaining a 'seamless and frictionless border' between Northern Ireland and the Republic of Ireland with both the projected levels of trade destruction resulting from Brexit[14] and the United Kingdom's other priority of 'protecting the integrity of the UK's immigration system' (HM Government, 2017b: 22).

The results of the snap parliamentary elections of June 2017, in which the Conservative Party failed to achieve a parliamentary majority did, for a while, fuel speculation that a minority Conservative government would be forced to reconsider its stance on Brexit and approach negotiations with the EU looking to remain in either, or both, the SEM and the European customs union. Ultimately, however, the shape and form of Brexit will depend on the outcome of complex and long negotiations where not only the UK's stated desire for a 'bold and ambitious' free trade agreement with the EU but also what the EU 27 are willing to offer, will be decisive.

The above discussion has direct implications for the future economic development of the UK and Northern Ireland, as well as for their trade relations with the EU and the rest of the world. Further discussion on possible models for maintaining the UK's and Northern Ireland's future economic relationships with the Republic of Ireland is contained in a Briefing Paper published by CCBS in June

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[10] Ibid.

[11] Clearly spelling out a single market and the customs union exit course.

[12] As the First Minister and Deputy First Minister's letter to the Prime Minister of August 2016 made clear, this encompasses the aspect of energy supply and the agri-food sector (including fisheries).

[13] https://www.uktradeinfo.com/Statistics/BuildYourOwnTables/Pages/Table.aspx

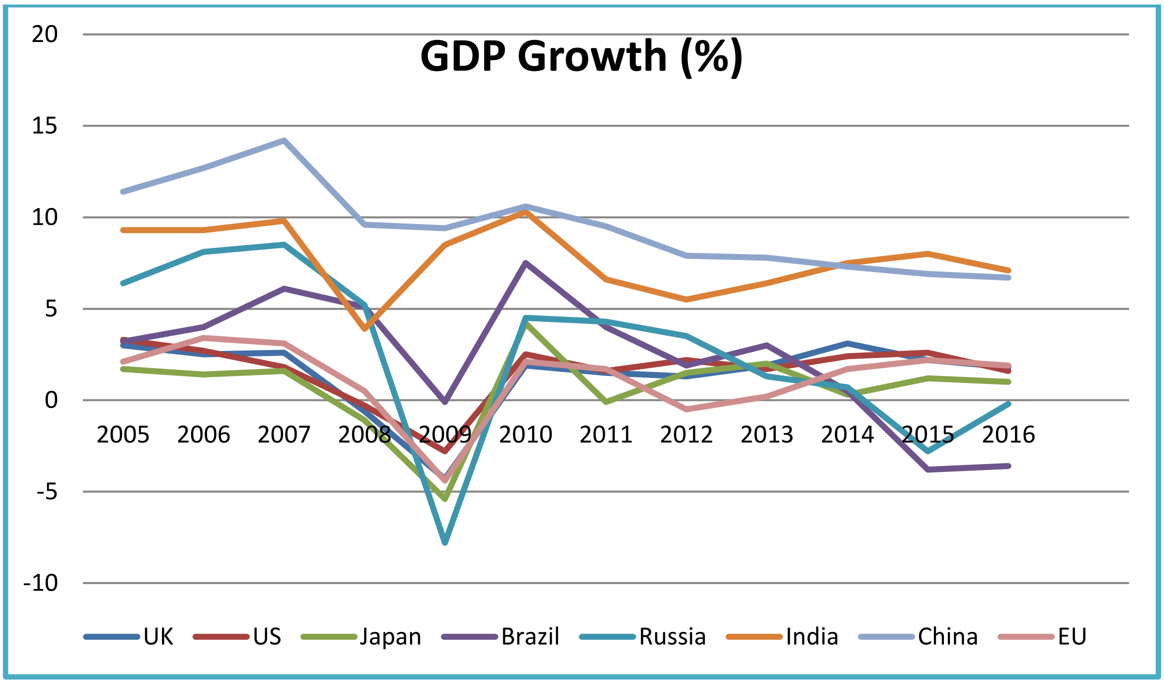
[14] Oxford Economics (April 2016) "The Economic Implications of A UK Exit from The EU for Northern Ireland" A Briefing Paper. http://eagni.com/wp-content/uploads/2016/03/The-Economic-Implications-of-a-UK-Exit-from-the-EU-for-Northern-Ireland.pdf

2017.[15] We return to this question, and to wider economic relations with the EU at the end of this Briefing Paper. First, however, we look at past and current performance of key economic actors relevant to the debate as well as key aspects of trade between these actors. The purpose of this discussion is to draw attention to aspects of both the UK and Northern Ireland's economies that must be considered, and will undoubtedly be affected, by the outcome of Brexit negotiations.

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 2016 of the UK, the US, Japan, Brazil, Russia, India, China,[16] and the EU.

Figure 1



From the above we can see that in 2006 the UK's rate of GDP growth was 2.5%, compared to the EU average of 3.4%, but that at the height of the global financial crisis in 2009 the UK's rate stood at -4.3% and the EU average at -4.4%. By 2014, the UK's growth rate had recovered to 3.1%, almost double that of the EU average, which stood at 1.7%. Both UK and EU GDP growth rates plummeted again to 1.8% and 1.9% respectively in 2016. By comparison India's (7.1%) and China's (6.7%) growth rates continue to be higher than all the other countries listed above, although Chinese growth has also slowed down since 2012.

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.

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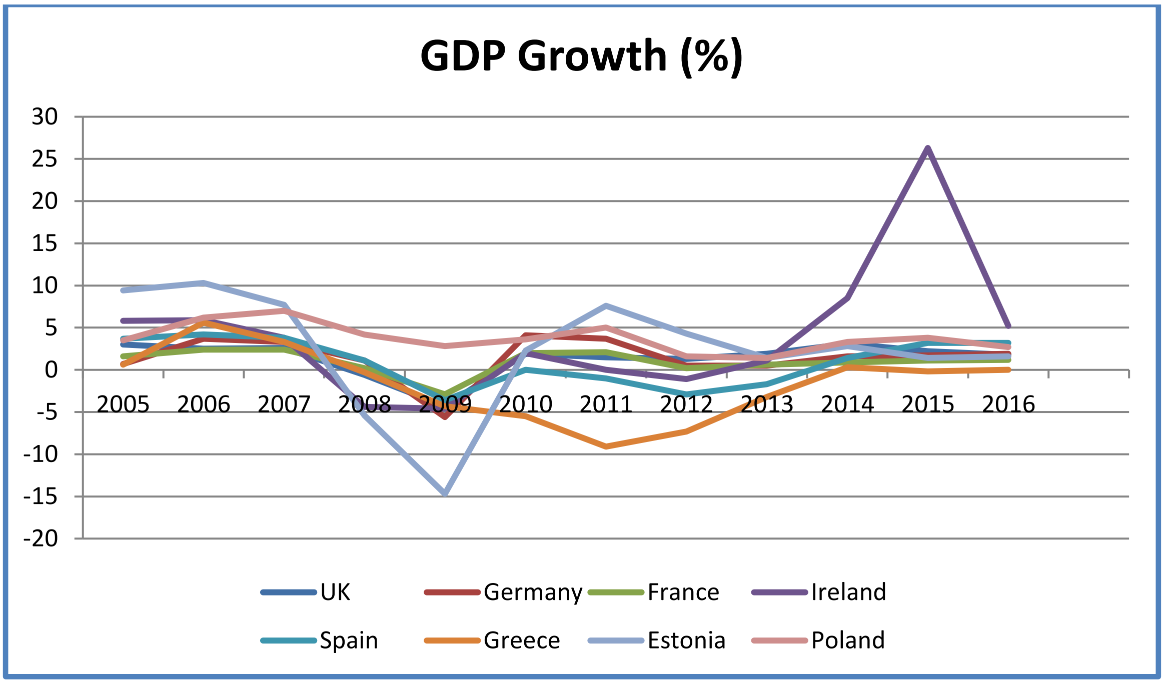
[15] "Flexible and imaginative solutions": The 1998 Belfast/Good Friday Agreement as a framework for post-Brexit relations within and between these islands. http://crossborder.ie/site2015/wp-content/uploads/2017/07/Brexit-Briefing-Paper-040717.pdf

[16] World Bank, http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?view=chart

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 (2005-2016), the following graph displays GDP growth rates of a selection of the Member States.

Figure 2

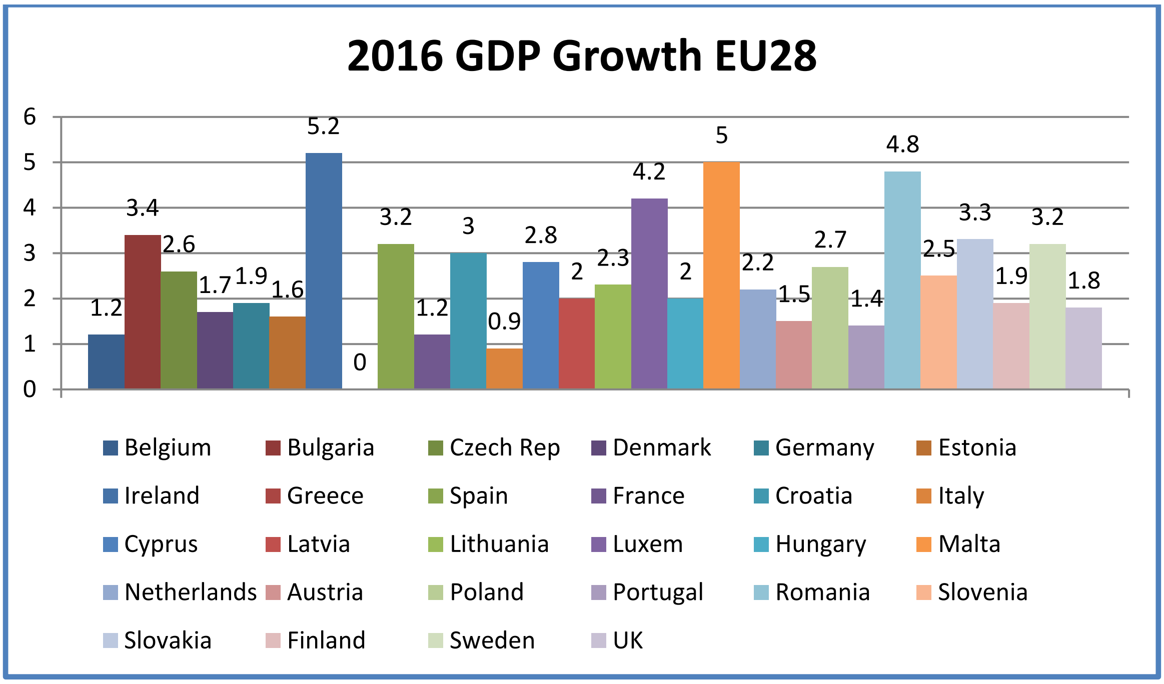


The figures show that in 2005 four other EU Member States were experiencing higher GDP growth rates than the UK's 3%: Poland (3.5%), Spain (3.7%), Ireland (5.8%), and Estonia (9.4%). At the height of the global financial crisis three other EU Member States suffered greater shrinkages in the growth of their GDP, which in the UK stood at -4.3%: Estonia (-14.7%), Germany (-5.6%), and Ireland (-4.6%). By 2016, the UK's GDP growth rate stood at 1.8%, whilst the growth rates of Germany (1.9%), Ireland (5.2%), Spain (3.2%) and Poland (2.7%) were in excess of that of the UK.

Focusing on 2016 GDP growth rates in the EU, and using data from the EU's own statistical agency,[17] Figure 3 below charts the position of each of the 28 Member States.

[17] Eurostat, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00115

Figure 3



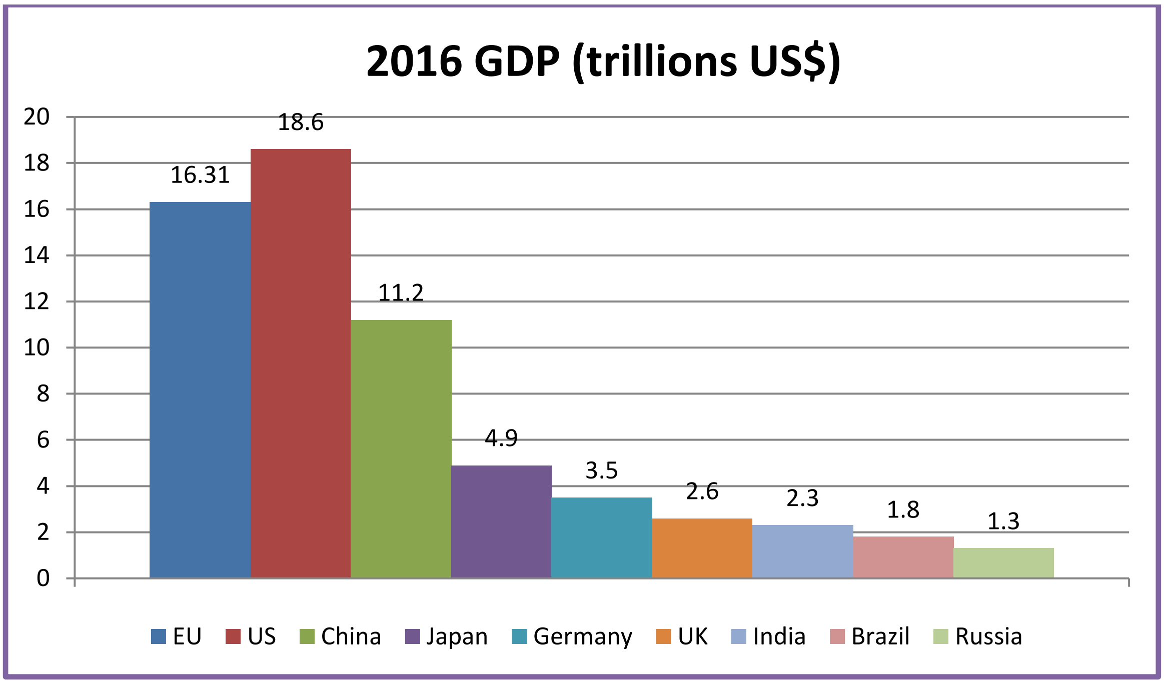
As this chart suggests, in 2016 Greece was the EU Member State with the worst GDP growth figures, showing a contraction to 0.0%. The average 2016 GDP growth rate for the 28 Member States was 1.9%, with the UK (at 1.8%) performing marginally lower than the average. However, the UK's growth rate was significantly lower than those of the best performing EU Member States, which were topped by Ireland at 5.2%, with the next four in the top five represented by Malta (5.0%), Romania (4.8%), Luxembourg (4.2%) and Bulgaria (3.4%).

GDP Rankings

The previous section offered an overview of how a selection of economies was performing in relation to their GDP growth rates. However, this does not give us an insight into the relative sizes of their economies. A high 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 2016, as well as showing the top ten countries in terms of total GDP.[18]

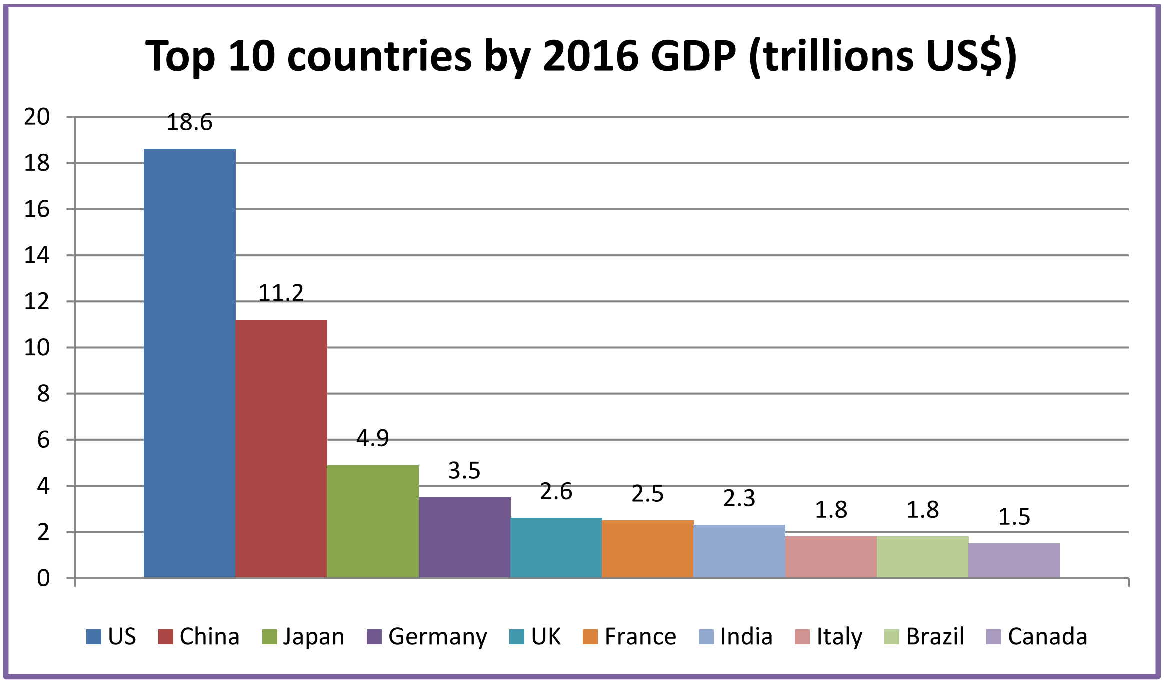
[18] World Bank, GDP ranking, http://data.worldbank.org/data-catalog/GDP-ranking-table

Figure 4



The above chart takes the same selection of countries used in Figure 1 in the previous section, and includes the EU as a whole.[19] The EU figure in the chart corresponds to the total GDP of its 28 Member States, including that of the UK. We can see here that in 2016 Germany's GDP (3.5 trillion US$) exceeded that of the UK (2.6 trillion US$). Figure 5 below discounts the EU total GDP figure and looks instead at the top ten countries in terms of their 2016 total GDP.

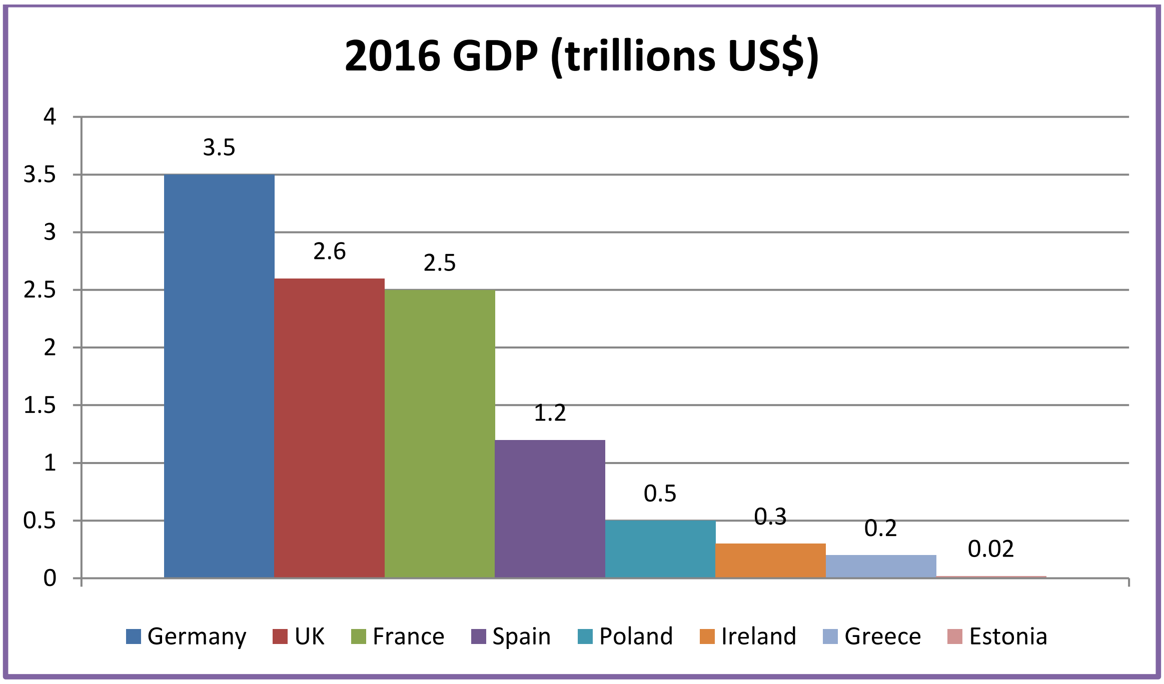
Figure 5



[19] The source for the EU 2015 GDP figure is https://tradingeconomics.com/european-union/gdp

Among the top 10 countries in Figure 5 we see Germany ranked fourth and the UK fifth, but we can also see two further EU member states appearing: France in sixth and Italy in eighth place. If we focus on the EU itself and the 2016 GDP of some of its constituent Member States, using the same selection as in Figure 2, we observe the following:

Figure 6



While Figure 2 (showing rates of GDP growth of a selection of EU member states) demonstrated that in 2016 Spain, Poland, Germany and Ireland were growing at a faster rate than the UK, we can see in Figure 6 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 2016 in terms of value of products exported can be seen in Figure 7.[20]

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

Figure 7

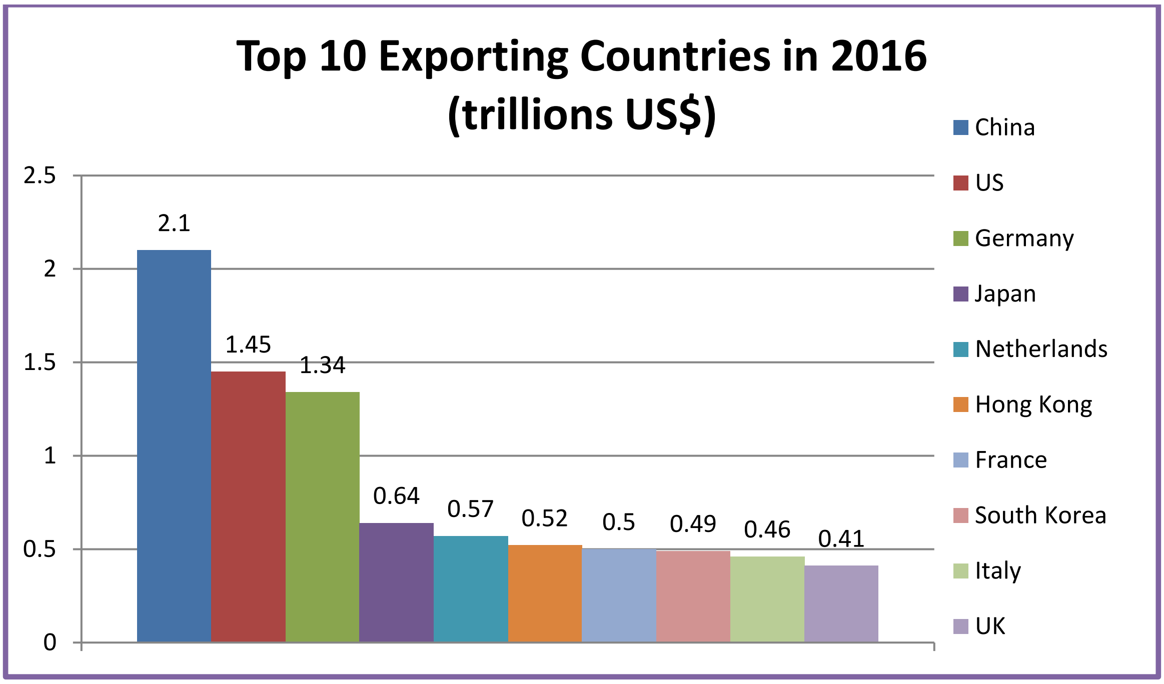


Figure 7 shows that the UK (which in 2015 shared the last position in this chart with Italy)[21] has, in 2016, moved slightly behind, squarely occupying tenth place (annual export value of 0.41 trillion US$). As such, in 2016 the UK lagged in its total exports behind four other EU Member States: Germany (1.34 trillion US$), the Netherlands (0.57 trillion US$), France (0.5 trillion US$) and Italy (0.46 trillion US$). 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 were 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 2015.

[21] The value of annual exports for each sitting at around 0.46 trillion US dollars.

Figure 8[22]

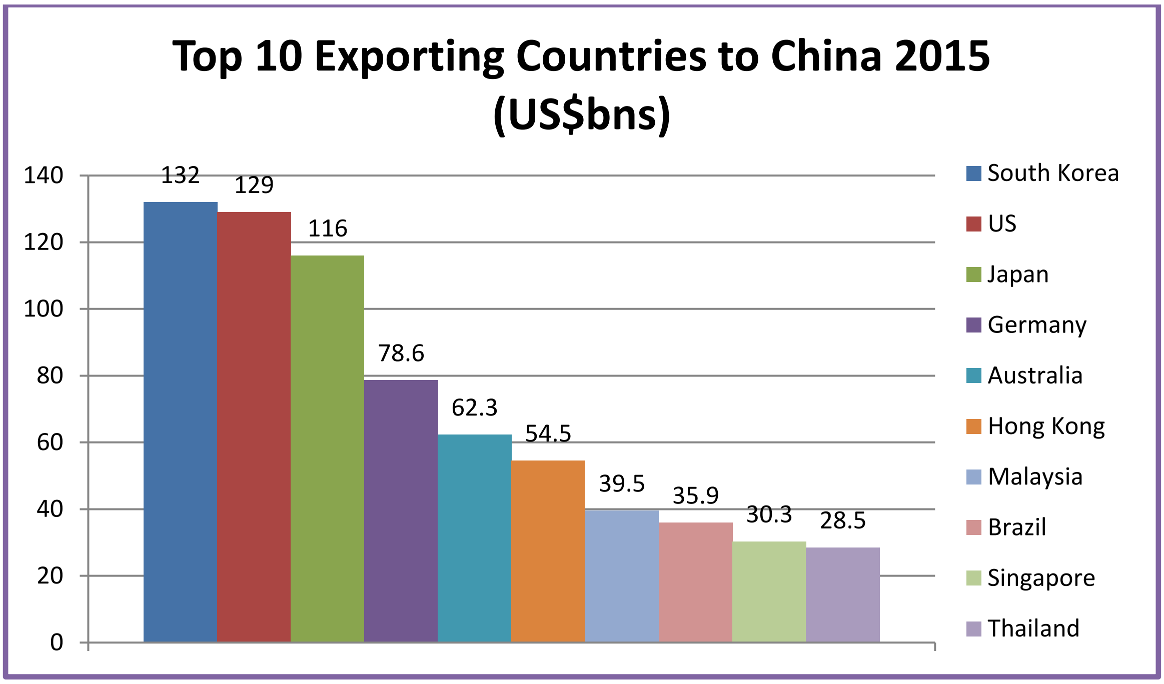
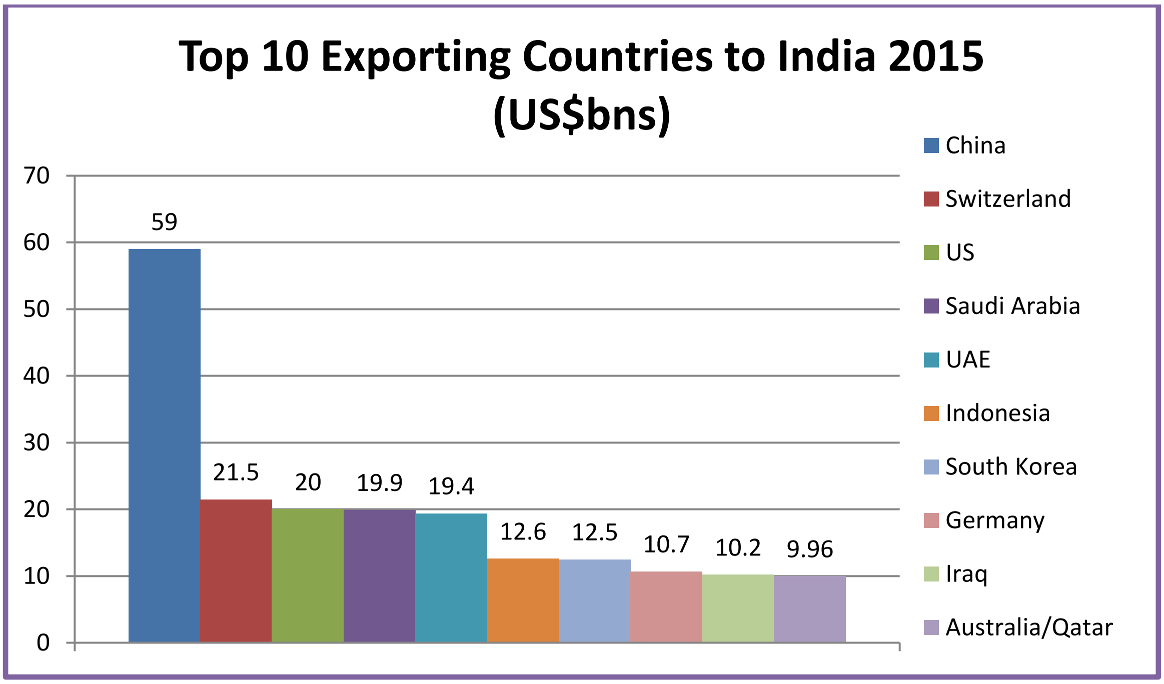


Figure 9[23]



The UK does not figure within the top 10 exporting countries to China or India in either 2014 (as our earlier version of this briefing paper pointed out) or 2015 (Figures 8 and 9). At the same time, as in 2014, Germany appears as the fourth largest exporter to China (US$ 78.6bn) and has now moved to the position of the eighth largest exporter to India (US$ 10.7bn). It is worth noting that there is a

[22] OEC, "Where does China import from? (2015)", http://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/chn/show/all/2015/

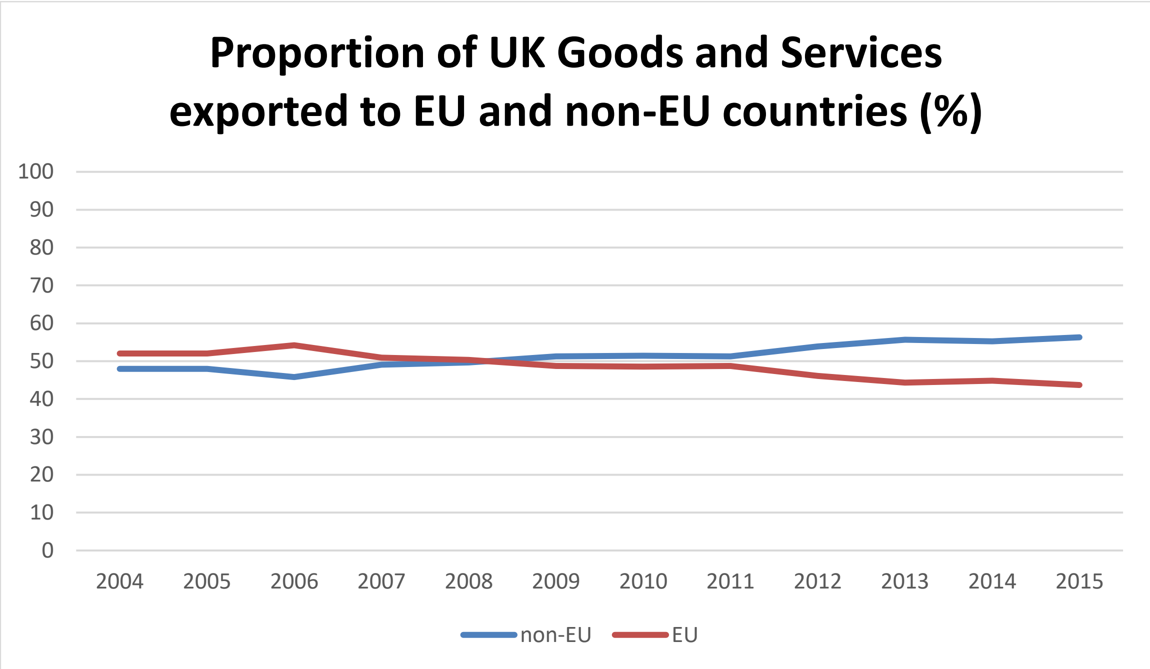
[26]OEC, "Where does India import from? (2015)", http://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/ind/show/all/2015/

change from Germany's position as the twelfth largest exporter to India in 2014, demonstrating again that membership of the EU does not in principle hamper a country's ability to grow its exports with either China or India. However, for both China and India the major product imported is crude petroleum (13% of all imports for China, and 29% for India). Of the UK's total exports to China in 2015 (worth US$ 27.6bn) 37% was gold and 18% were cars, while Germany's largest exports to the Chinese market in 2015 were cars (14%) and vehicle parts (10%).

UK Export Destinations and Balance of Trade

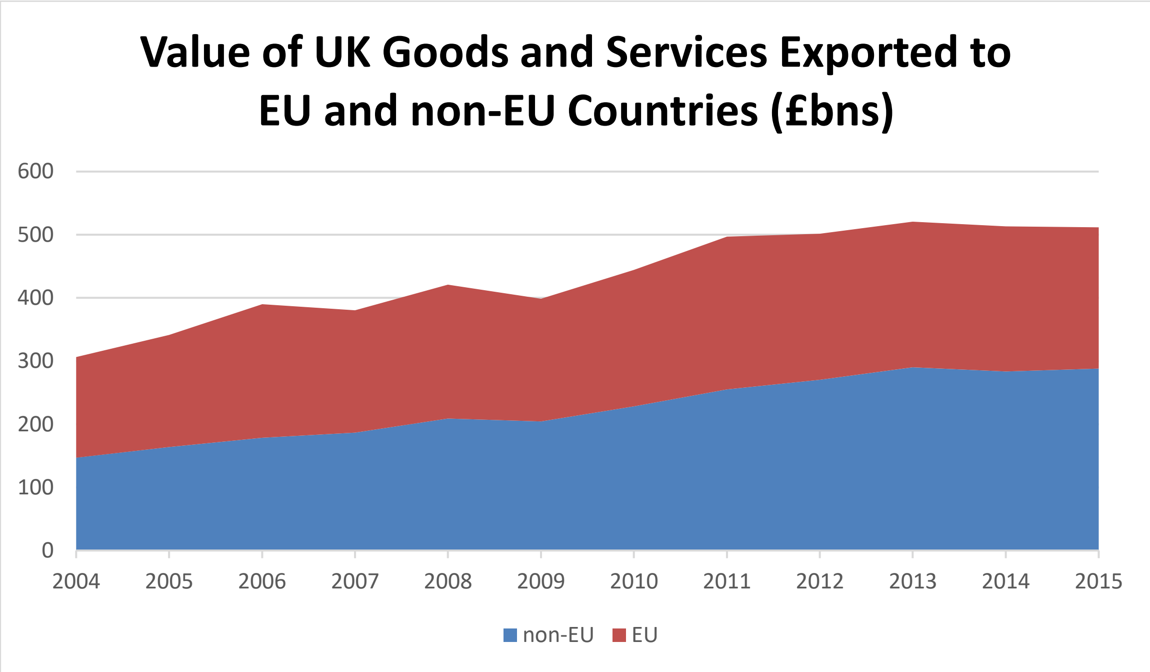
Figure 10 below demonstrates that the proportion of goods and services which the UK exports to non-EU countries has steadily increased over the past decade, and in 2015 stood at 56% of the country's total exports.[24] A look at the same statistics in terms of value (Figure 11) also demonstrates that since 2009 the value of exports to non-EU countries is greater than that to EU countries[25].

Figure 10



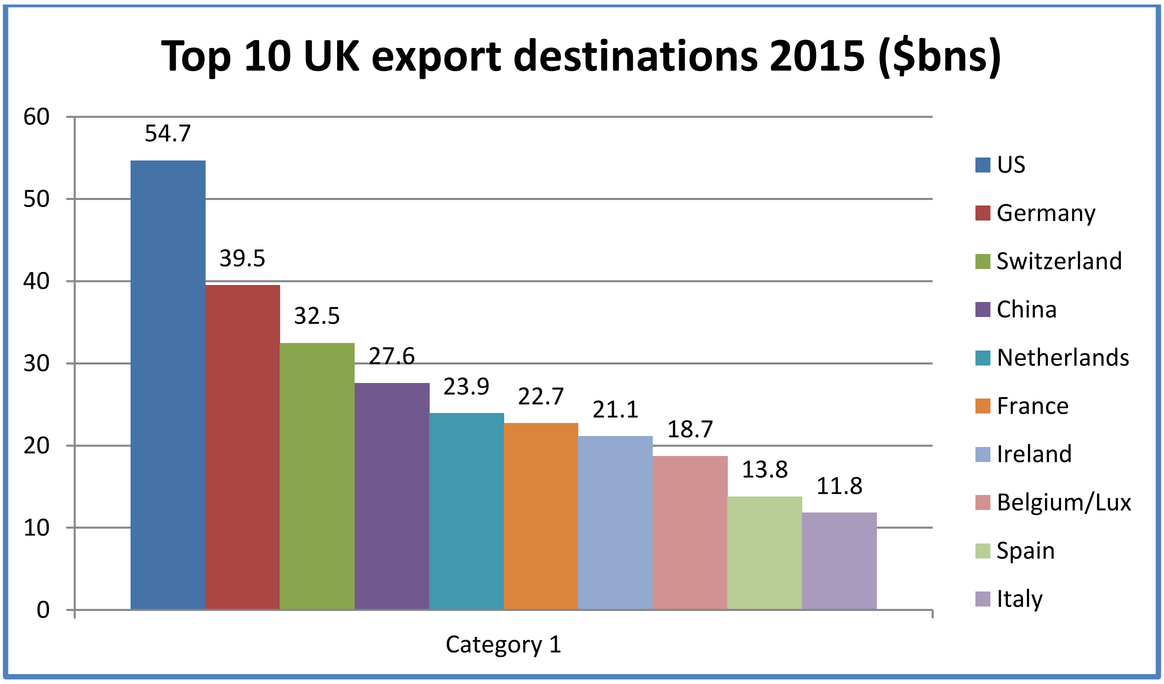
[24] Source: ONS, http://visual.ons.gov.uk/uk-perspectives-2016-trade-with-the-eu-and-beyond/
[25] Ibid.

Figure 11



In 2015 the top country for UK exports was the United States, which took 13% of these exports worth $54.7 billion. However, if we observe the top 10 countries for UK exports shown in Figure 12, there is a significant presence of other EU Member States.[26]

Figure 12



[26] See http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/gbr/show/all/2015/ and 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/

In general terms, it remains the case that the EU, as a whole, is a major trading partner for the UK and constitutes the market for 44% of UK exports.[27] As pointed out by the Office for National Statistics,[28] the UK runs a trade deficit in goods and a trade surplus in services with the EU, i.e. it exports more in services than it imports from the EU, and imports more in goods than it exports to the EU. This can be explained by the fact that the UK economy is dominated by the services sector over and above manufacturing and other types of production. The overall trade balance with the EU is in deficit.[29]

Northern Ireland Export Destinations and Balance of Trade

Growing Northern Ireland's exports has been a key priority for successive devolved administrations.[30] As Figure 13 shows, in 2016, Northern Ireland's goods exports were valued at £7.8 billion. This represents an increase of 12% on the previous year when exports were valued at £7 billion.

Figure 13[31]

[27] House of Commons Library Briefing Paper (2016) "In brief: UK-EU economic relations", p.3, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06091

[28] http://visual.ons.gov.uk/uk-perspectives-2016-trade-with-the-eu-and-beyond/

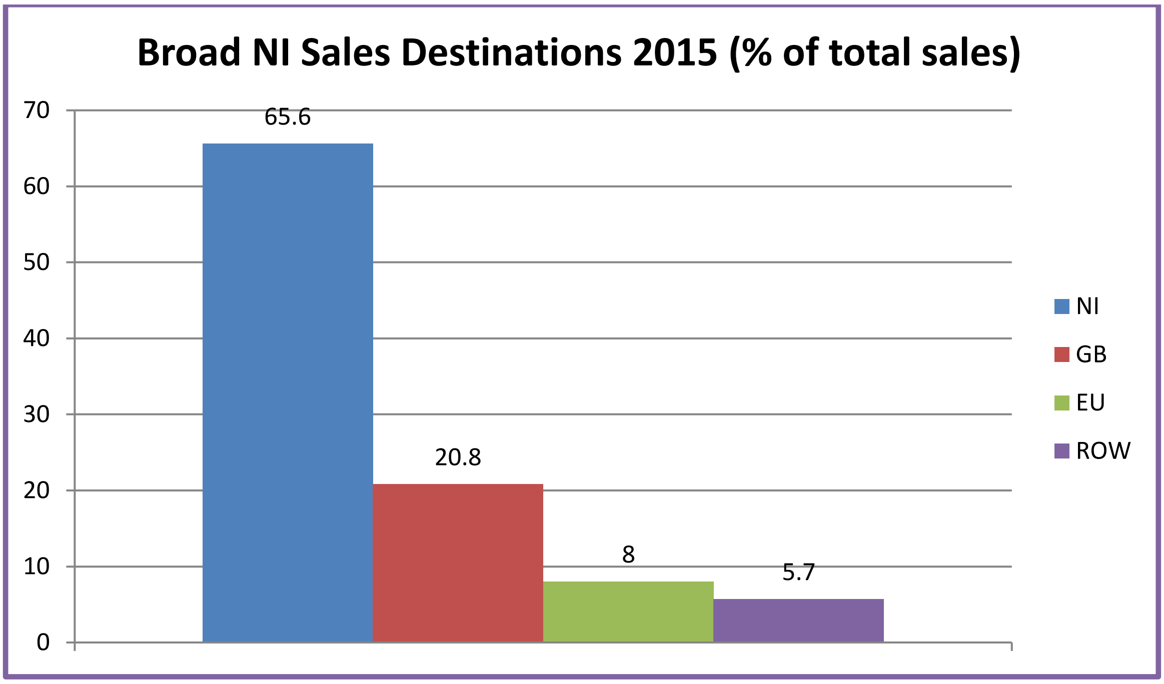
[29] Ibid.

[30] See key reference sources at http://www.assemblyresearchmatters.org/2017/06/14/goods-northern-ireland-export-much-worth-go/

[31] HM Revenue and Customs (HMRC) Regional Trade Statistics, https://www.uktradeinfo.com/Statistics/RTS/Pages/default.aspx.

In line with the overall trend, the broad destinations of Northern Ireland total sales in 2015 show that the EU continues to be the single most significant market for the region's exports. The EU as a trade bloc is the destination for more than half of Northern Ireland's goods exports. On a country by country basis, however, the Republic of Ireland (RoI) remains Northern Ireland's key export partner.

Figure 14



It is noticeable that in terms of Northern Ireland's total sales (with a total value in 2015 of £66,699 million) the majority are within Northern Ireland itself (65.6%), with the second most important destination being Great Britain (20.8%). Only 13.7% of Northern Ireland goods were exported in 2015 - 58.2% of those exports were to the EU, with the other 41.8% going to the rest of the world.[32]

Of Northern Ireland's total sales in 2015 to the EU, 63.7% (worth £3,377 million) were to the Republic of Ireland alone, making it the single most important export destination within the EU. Indeed, the significance of cross-border trade in manufactured goods between the two jurisdictions on the island of Ireland is estimated at around £2.3bn, with the larger proportion of that total trade going from Northern Ireland to the Republic of Ireland (£1.4bn).[33] In 2015 the next most important EU Member States for Northern Ireland's total sales were Germany (total sales worth £467 million), France (£356 million), and the Netherlands (£314 million).[34]

In sectoral terms, as can be seen in Figures 15 and 16, for both manufacturing and the agri-food industry in Northern Ireland, the EU is an important destination for exports.

[32] NISRA, (15 February 2017) "Northern Ireland Broad Economy Sales and Exports Statistics: Headline Results 2015", https://www.nisra.gov.uk/sites/nisra.gov.uk/files/publications/BESES-Publication-2015-Headline-results-pdf_1.pdf
[33] KPMG (2016) "Brexit: A Northern Ireland Perspective", https://assets.kpmg.com/content/dam/kpmg/pdf/2016/06/ie-brexit-northern-ireland.pdf
[34] NISRA (2017), see note 14.

Figure 15[35]

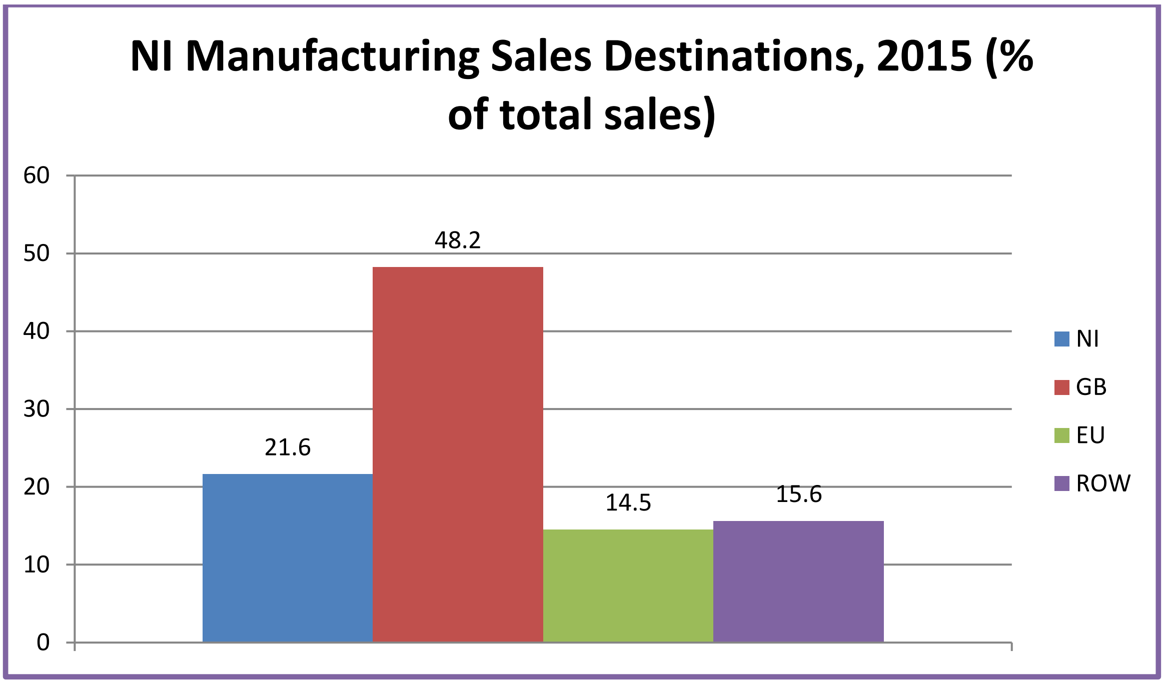
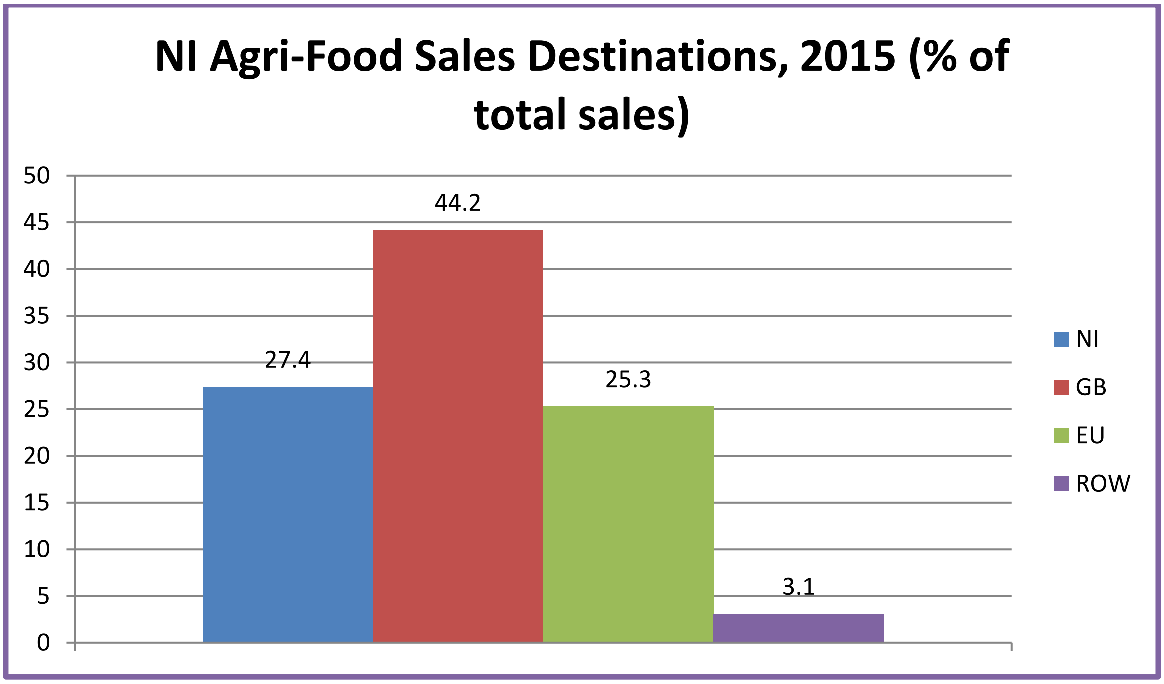


Figure 16[36]



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

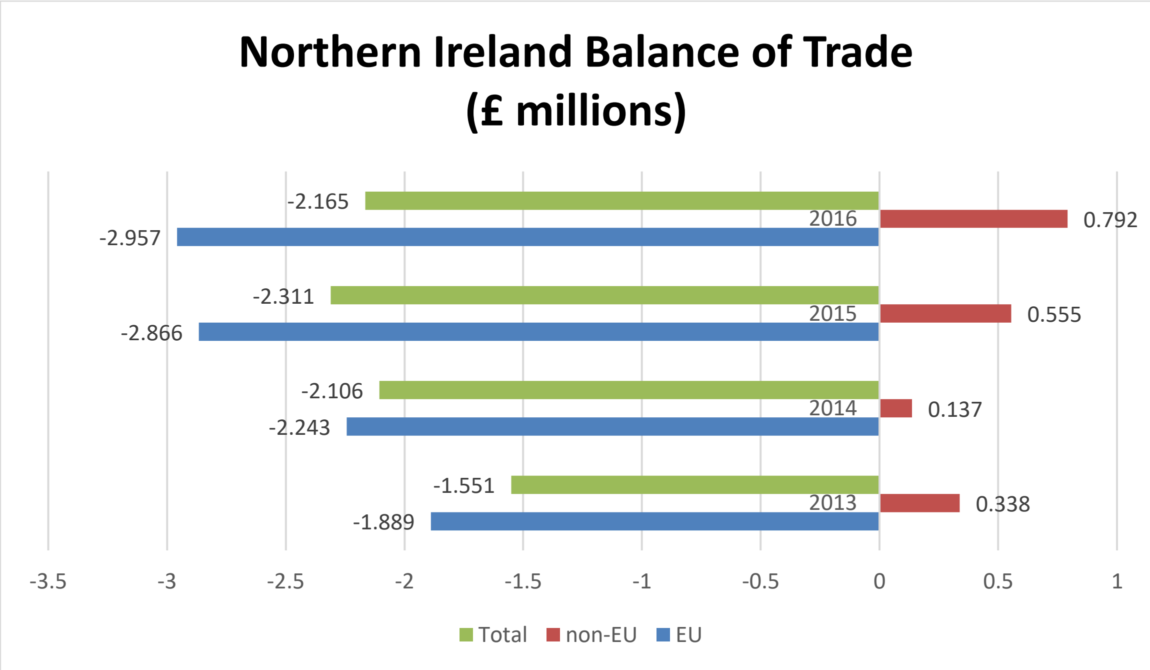
[35] Calculated on the basis of data from NISRA, "Northern Ireland Broad Economy Sales and Exports Statistics: Headline Results 2015" (15 February 2017), https://www.nisra.gov.uk/sites/nisra.gov.uk/files/publications/BESES-Publication-2015-Headline-results-pdf_1.pdf

[36] Department of Agriculture and Rural Development "Size and Performance of the Northern Ireland Food and Drinks Processing Sector, Subsector Statistics 2014, with provisional estimates for 2015", https://www.daera-ni.gov.uk/publications/size-and-performance-ni-food-and-drinks-processing-sector

Northern Ireland's export performance. 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 2015 by just over 1%. Nevertheless, the EU market far outweighs the importance of non-EU export destinations for the agri-food sector. Again, as in the picture for Northern Ireland's sales as a whole, the Republic of Ireland is by far the most important EU export destination for both the manufacturing and the agri-food sectors. The RoI market accounts for 50.6% of total sales to the EU for the manufacturing sector, and 61.6% for the agri-food sector.

Data on service exports from Norther Ireland has been much less reliable[37] and is itself seen as exposing a key challenge in estimating the impact of Brexit on Northern Ireland's economy. It is clear from the above figures, however, that, in terms of goods exports, the Agri-Food sector (along with broader mineral manufacturing[38]) are very vulnerable to trade disruption with the EU.

Figure 17



Finally, Figure 17 presents Northern Ireland's trade balance between 2013 and 2016. It shows that while the value of Northern Ireland's exports as a whole has grown between 2015 and 2016 by 12%[39], overall the region runs a trade deficit. At the same time, while the EU remains Northern Ireland's largest export market, in each of the years above, the region has imported more goods from the EU than it has exported.[40]

[37] Mac Flynn, P. (2016) "The economic implications of Brexit for Northern Ireland", NERI WP 2016/No 35, https://www.nerinstitute.net/research/the-economic-implications-of-brexit-for-northern-ireland/
[38] Ibid.
[39] Stennett, A. (2017) Research Matters Blog. http://www.assemblyresearchmatters.org/2017/06/14/goods-northern-ireland-export-much-worth-go/
[40] In January 2016, the NI Assembly Research and Information Service published a report that used HMRC regional trade data to analyse, amongst other things, Northern Ireland's trade with the EU. This report concluded that NI exported more to the EU than it imported. However, the methodology used by HMRC to compile data on regional trade in goods has since undergone a change, altering the way trade is allocated to

UK-EU Trading Models Post-Brexit

It is clear from the discussion above that, given the outlined economic development and trade relationships within and between the island of Ireland and Great Britain, and between these isles, the EU, and the rest of the world, Northern Ireland faces unique economic challenges, over and above those faced by Great Britain. Both the UK and the EU have formally recognised these unique challenges.[41] Furthermore, both the Irish government and Irish research and business organisations have been keen to point out that headline figures do not capture the underlying economic exposure stemming from the character of trade links and their interconnection with social and political relationships on the entire island of Ireland[42]. Very briefly, these economic challenges include:

- The fact that (as in the UK/NI trade data listed above) trade with the EU constitutes a far more important aspect of the Northern Ireland economy than it does for the UK as a whole.
- A 'hard' Brexit (denoting the UK's exit from both the SEM and the EU Customs Union) will inevitably result in new barriers to trade through customs control, rising tariffs. This will expose Northern Ireland's exports to RoI markets to a significant competitive disadvantage, relative to EU-produced goods.
- Increased controls and checks at the land border between the UK and the RoI also present unique risks, particularly to an all-island economy. This includes the question of the continued functioning of a shared labour market, with the associated questions of free movement of employees.
- Therefore, economic challenges are tightly knit into the question of the redefinition of the functions and management of the UK–Ireland border(s), with the attendant questions of free movement (or transit) of goods, services, capital, information, people, and the rights of citizens. It is also tightly knit with questions around existing bilateral agreements between Ireland and the United Kingdom, such as the Common Travel Area (CTA).
- The region's agricultural economy remains heavily reliant on Common Agricultural Policy (CAP) subsidization, while its largely SME industry is vitally dependent on cross-border supply-chains.
- The UK-Ireland borderland region's economic reliance on EU funding and subsidization presents an enormous challenge for maintaining its economic and infrastructural vitality.
- The EU institutions, such as the European Parliament, have also recognised that Ireland, as a Member State, "will be particularly affected by the withdrawal of the United Kingdom from the European Union"[43]. The Irish Government in its approach to the Brexit negotiations, has also

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UK regions since 2013. See a note regarding this methodological change and its effect on calculating Northern Ireland's trade balance at http://www.assemblyresearchmatters.org/2017/06/14/goods-northern-ireland-export-much-worth-go/

[41]See references in footnote 7. See also, European Council, "European Council (Art. 50) guidelines following the United Kingdom's notification under Article 50 TEU (29 April 2017)", http://www.consilium.europa.eu/en/press/press-releases/2017/04/29-euco-brexit-guidelines/.
Brexit negotiation directives, 22 May 2017.

[42]Foilseachán Rialtas na hÉireann (Irish Government Publication) "Ireland and the negotiations on the UK's withdrawal from the European Union. The Government's Approach" (May 2017), http://www.merrionstreet.ie/MerrionStreet/en/EU-UK/Key_Irish_Documents/Government_Position_Paper_on_Brexit.pdf; Ibec (2017) "Brexit: challenges with solutions. Priorities of Irish business in EU-UK negotiations", http://www.ibec.ie/IBEC/DFB.nsf/vPages/Ibec_Europe~Positions_and_publications~brexit-challenges-with-solutions---priorities-of-irish-business-in-eu-uk-negotiations-19-06-2017/$file/Ibec+-+Brexit+-+challenges+with+solutions.pdf.

[43] "European Parliament resolution of 5 April 2017 on negotiations with the United Kingdom following its notification that it intends to withdraw from the European Union", paragraph 8.

declared “withdrawal represents a serious disturbance to the Irish economy overall” and that it “will require support”.[44]

Approaches to negotiating Brexit so far

The outcome of the Brexit negotiations begun in June 2017 will decide which form of trading relationship will be established between the UK and the EU. The consequences of that choice will be felt in Northern Ireland, as well as in the Republic of Ireland, given the importance of the GB market to the island’s trade. The Centre for Cross Border Studies is publishing a separate report on the stated approaches to the UK’s exit from the European Union by the UK Government, the devolved administrations, the EU’s institutions, and the Irish Government[45]. It is clear from this analysis that:

- The United Kingdom Government’s overall objective for the negotiations on its withdrawal from the European Union is to achieve a comprehensive free trade agreement, but its stated approach also raises the possibility that it would be prepared to revert to World Trade Organisation rules rather than accepting an outcome it perceives as unacceptable.
- The UK Government has ruled out any outcome that would involve continued membership of the EU’s Single Market, Customs Union, or acceptance of the jurisdiction of the Court of Justice of the European Union and of the principle of the freedom of movement of EU citizens.
- However, the UK’s approach to the negotiations also suggests that it would be willing to enter into an agreement with the EU that would involve UK participation in some elements of the Single Market and specific arrangements in relation to the Customs Union.
- The United Kingdom’s rejection of continued membership of the Single Market does not appear to accommodate the needs of the Northern Ireland administration as had been expressed by the former First and Deputy First Ministers. Furthermore, there is a clear gap between the stated UK negotiating priorities and objectives, and those contained in the EU negotiating guidelines.
- Partial or sectoral participation by the UK in the Single Market is ruled out in the approaches to the negotiations adopted by the EU, and protecting the integrity of the Single Market has been identified as a priority by the EU’s institutions and the Irish Government.
- The UK Government and the EU shared the Irish Government’s view that Ireland would be particularly affected by the UK’s withdrawal from the EU, and that any agreement between the UK and the EU should avoid damaging the Irish economy. However, it is hard to see, given the present parameters of stated negotiating positions, how the negative effects of UK’s exit from both the SEM and the EU customs union, to which Northern Ireland is uniquely vulnerable and exposed, may be offset.

Two Models

In light of the priorities identified in the approaches to the negotiations adopted by the UK, the EU and the Irish Government, the Centre for Cross Border Studies has proposed[46] that the 1998

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[44] *Ireland and the negotiations on the UK’s withdrawal from the European Union: The Government’s approach*, p.9.

[45] Expect in Soares, A. (August 2017) “The negotiations for the UK’s withdrawal from the European Union”, http://crossborder.ie/category/research-and-policy/research/research-reports/

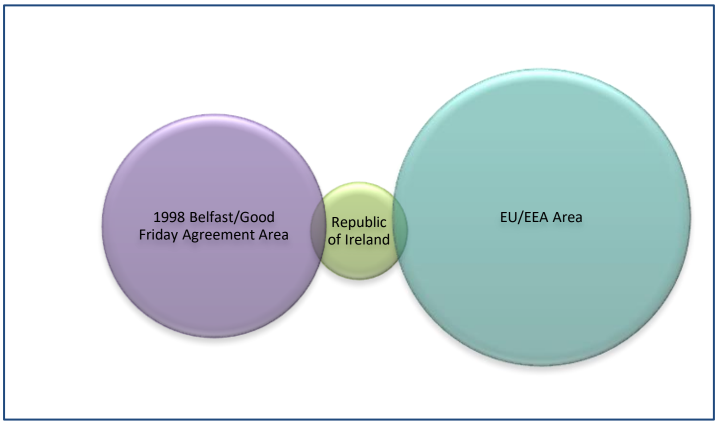
[46] “Flexible and imaginative solutions”: The 1998 Belfast/Good Friday Agreement as a framework for post-Brexit relations within and between these islands (June 2017), http://crossborder.ie/site2015/wp-content/uploads/2017/07/Brexit-GFA-19.07.2017-revised.pdf

Agreement is an ideal vehicle for maintaining the current socio-economic relations between Northern Ireland and Ireland, and between the island of Ireland and Great Britain following the UK's exit from the European Union. Below we outline this proposal (developed in greater detail elsewhere[47]), employing the 1998 Agreement as a framework receptive to the flexible and imaginative solutions required for the post-Brexit context – and a framework that has been identified as a priority in the negotiations by all the parties involved. It is also a framework that already contains institutions with representation from the administrations and governments of all parts of these islands, including from a continuing Member State of the European Union.

Under that framework we suggest two conceptual models that facilitate the movement of people, goods and services within and between the island of Ireland and Great Britain, avoiding the creation of new or hardening of existing borders between any part of these islands. Our proposal does not cover every possibility, nor does it detail the technical or legal arrangements that would make it a reality.

We stress that for these to be workable solutions, the integrity of the 1998 Belfast/Good Friday Agreement, with all of its three interdependent strands, the geographical spaces they encompass, and their respective institutions, needs to be safeguarded. Specifically, Strand I encompasses Northern Ireland and is institutionally represented by the Northern Ireland Assembly; Strand II encompasses the island of Ireland, represented institutionally by the North South Ministerial Council; and Strand III encompasses the British isles, including the island of Ireland. Its respective institutions include the British-Irish Council and the British-Irish Intergovernmental Conference.

Model I



In this first model, the Republic of Ireland is within the EU/EEA area through its membership of the European Union, but is also within another area as a co-guarantor of the 1998 Belfast/Good Friday Agreeent and its membership of the institutions under Strands II and III of that Agreement. The two areas do not themselves overlap.

The 1998 Agreement area comprises the two sovereign governments of the United Kingdom and the Republic of Ireland, as well as the devolved administrations of Northern Ireland, Scotland and Wales. The other area comprises the Republic of Ireland and all other Member States of the European Union and those EFTA countries within the EEA, and is governed by the relevant institutions according to the Treaties in force. Neither the United Kingdom or any of the devolved administrations would be within this area.

[47] See references in footnotes 45 and 46.

Within this model goods and services, as well as people, should be able to flow freely between the Republic of Ireland and the United Kingdom. However, goods and services from the United Kindgom would not be able to travel further than the Republic of Ireland, and they would have to adhere to all relevant EU regulations and standards. That adherence would, of course, be more easily achieved if, in the wake of the Great Repeal Bill, the UK were not to introduce legislation that resulted in lower standards, protections or in regulatory divergence.

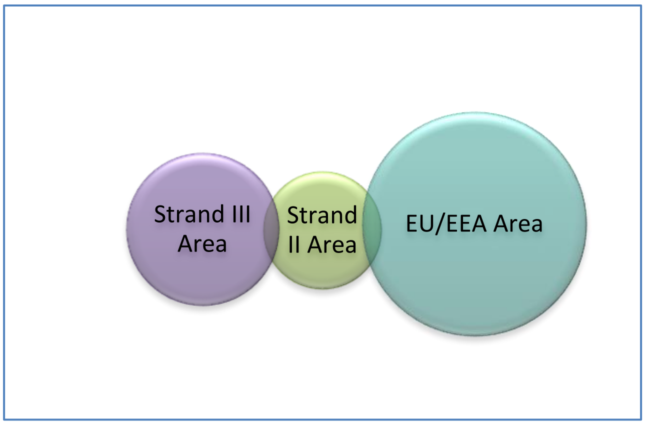
Crucially, however, for this model not to result in economically adverse effects for the Republic of Ireland by damaging its indigenous businesses, the UK would have to impose certain restraints on its approach to Free Trade Agreements with what would be third countries from an EU perspective. If the UK were to reach agreements with other countries that included a significant reduction or elimination of tariffs, the introduction of goods from such countries into the Irish market could threaten indigenous businesses and in many cases, such as the agri-food sector, could also damage enterprises in Northern Ireland. To prevent this, either the UK continues to largely mirror EU tariffs with third countries (which would not prevent it from striking Free Trade Agreements), or rigorous customs controls would have to be put in place between the UK and the Republic of Ireland, including between the two jurisdictions on the island of Ireland. The latter option would make the model proposed here unviable.

Under this model, the existing institutions under Strands II and III would gain greater prominence as coordinating bodies and spaces for significant dialogue between the UK and Irish Governments, as well as between these and the devolved administrations. It is also important to recall that Ireland, as a Member State of the European Union and within the jurisdiction of the Court of Justice of the European Union, would have to continue to discharge its responsibilites to ensure the integrity of the Single Market and to uphold the values of the EU. The work of the British-Irish Council and the North South Mininsterial Council could allow the Irish Government to ensure that its obligations as a Member State of the European Union are being discharged, and to report to the other administrations where it, or the EU, feel that the operation of this model is unsatisfactory.

Furthermore, the British-Irish Council and/or the British-Irish Intergovernmental Conference could become useful vehicles under this model to enable the continuation of EU cross-border cooperation programmes involving Scotland, Wales and both jurisdictions on the island of Ireland. This would necessitate either the required financial contribution from the UK Government directly to the relevant EU budget, or indirectly through the Irish Government, which is a member of both the British-Irish Council and the British-Irish Intergovernmental Conference.

Model II

In this model goods from Northern Ireland would have access to the EU/EEA area, but without establishing any disruption to the flow of goods between Northern Ireland and the rest of the United Kingdom or undermining its constitutional position.



While both Northern Ireland and the Republic of Ireland are the only members of the "Strand II Area" in this model, they nevertheless remain separate jurisdictions. The "Strand III Area" comprises the members of the "Strand II Area", along with Great Britain. This brings together the two sovereign governments of the United Kingdom and the Republic of Ireland, as well as the devolved administrations of Northern Ireland, Scotland and Wales. As in the first model, the Republic of Ireland occupies both these areas given its role as a co-guarantor of the 1998 Belfast/Good Friday Agreeent and its membership of the institutions under Strands II and III of that Agreement.

Also similarly to the previous model, the "EU/EEA Area" comprises the Republic of Ireland and all other Member States of the European Union and those EFTA countries within the EEA, and is governed by the relevant institutions according to the Treaties in force. Neither the United Kingdom, nor any of the devolved administrations would be within this area, although unlike the first model Northern Ireland would have access to it through its position within the "Strand II Area".

Within this model, as in the first, goods and services should be able to flow freely between the Republic of Ireland and the United Kingdom, and the UK would have to adhere to all relevant EU regulations and standards. It would also have to impose certain restraints on its approach to Free Trade Agreements with third countries and largely mirror EU tariffs in order not to prejudice Irish businesses. However, in order for Northern Ireland goods to have access to the "EU/EEA Area", an additional mechanism would have to be put in place in order to distinguish them from goods originating from elsewhere in the UK.

Both the proposed models require UK adherence to relevant EU regulations and standards, and this could also involve the devolved UK administrations ensuring this is the case in relation to poilcy areas within their competence, particularly as certain powers are "repatriated" from the EU to the UK. The harmonisation of regulations and standards would not only support the continued flow of goods and services between the Republic of Ireland and the UK, but it would also facilitate the operation of the cross-border implementation bodies created under Strand II of the 1998 Belfast/Good Friday Agreement.

One of those bodies, the Special EU Programmes Body (SEUPB), would be ideally placed to continue to manage European Territorial Cooperation programmes on the island of Ireland that have contributed to the ongoing peace and reconciliation process.