

Economic Consequences of Brexit for Northern Ireland

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Introduction

- There has been some discussion and analysis of the overall impact of Brexit on the UK (e.g. Ottaviano et al., 2014) and Ireland (O’Ceallaigh, and Gillespie, 2015, Barrett et al., 2015).
- Given the existing results it is likely that the impact of Brexit would differ across the UK (and across the EU).
- How would Brexit impact on Northern Ireland?

EU influence on Economic Relations

- EU four freedoms:
 1. Free movement of goods (Merchandise Trade, Energy);
 2. Free movement of workers (Migration, Tourism);
 3. Right of establishment and freedom to provide services (FDI, Services Trade, Migration);
 4. Free movement of capital (FDI).
- Brexit could impact on all four freedoms.

Possible Outcomes

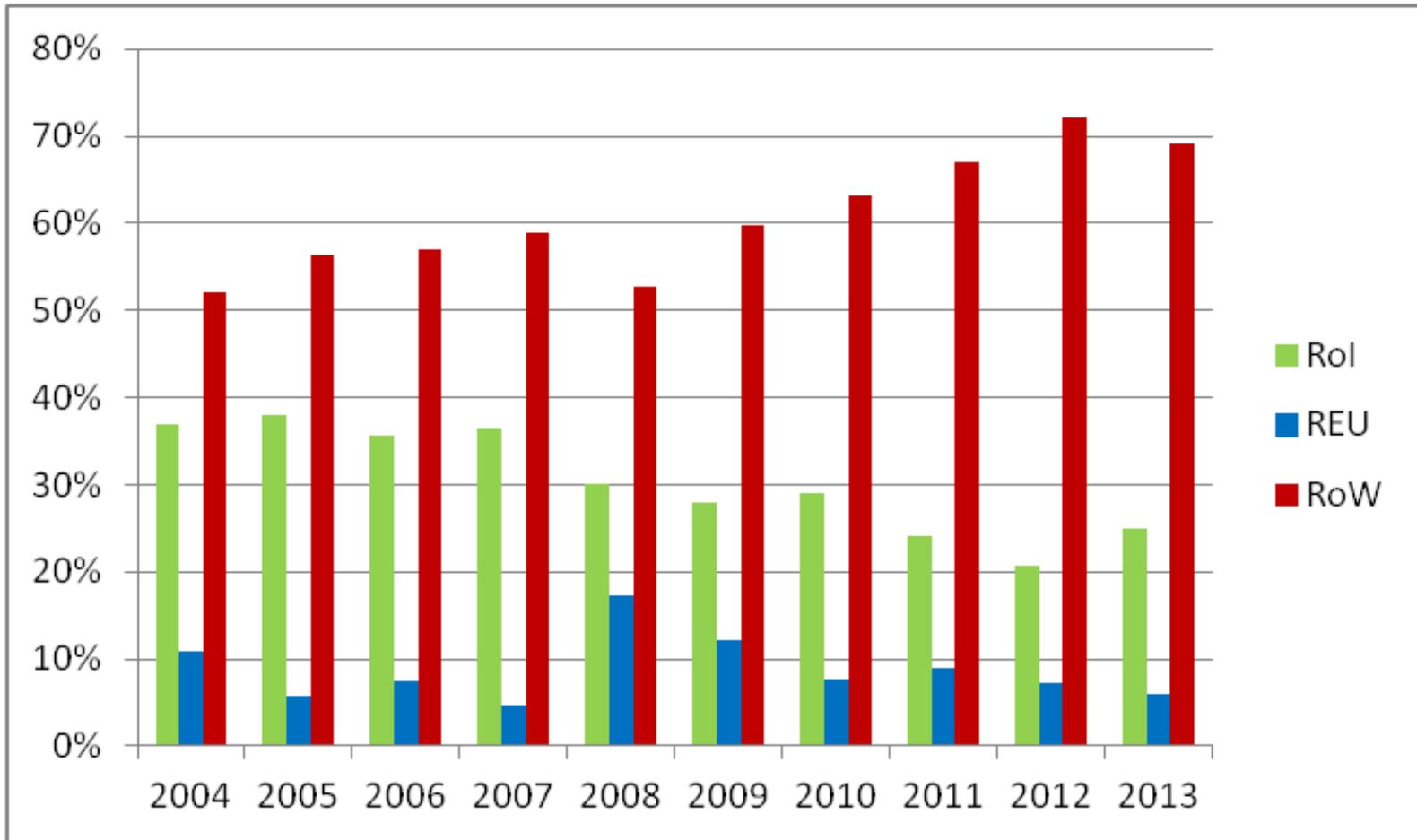
- Ex-ante it is difficult to predict the likely outcome of the negotiations between the UK and the EU and the subsequent referendum.
- While Brexit might be unlikely it is possible.
- Norwegian solution: EEA Agreement – free access to the EU market but needs to adhere to all relevant EU Directives, pay into the EU, have freedom over fishing, agricultural and environmental policies;
- Swiss solution: Associate member. A number of agreements, regarding free trade and travel. But increasing pressure regarding the financial sector.
- Turkish solution: Customs union and progressive harmonisation of tariffs in Turkey on third country products.

Economic Connections between Northern Ireland and the EU



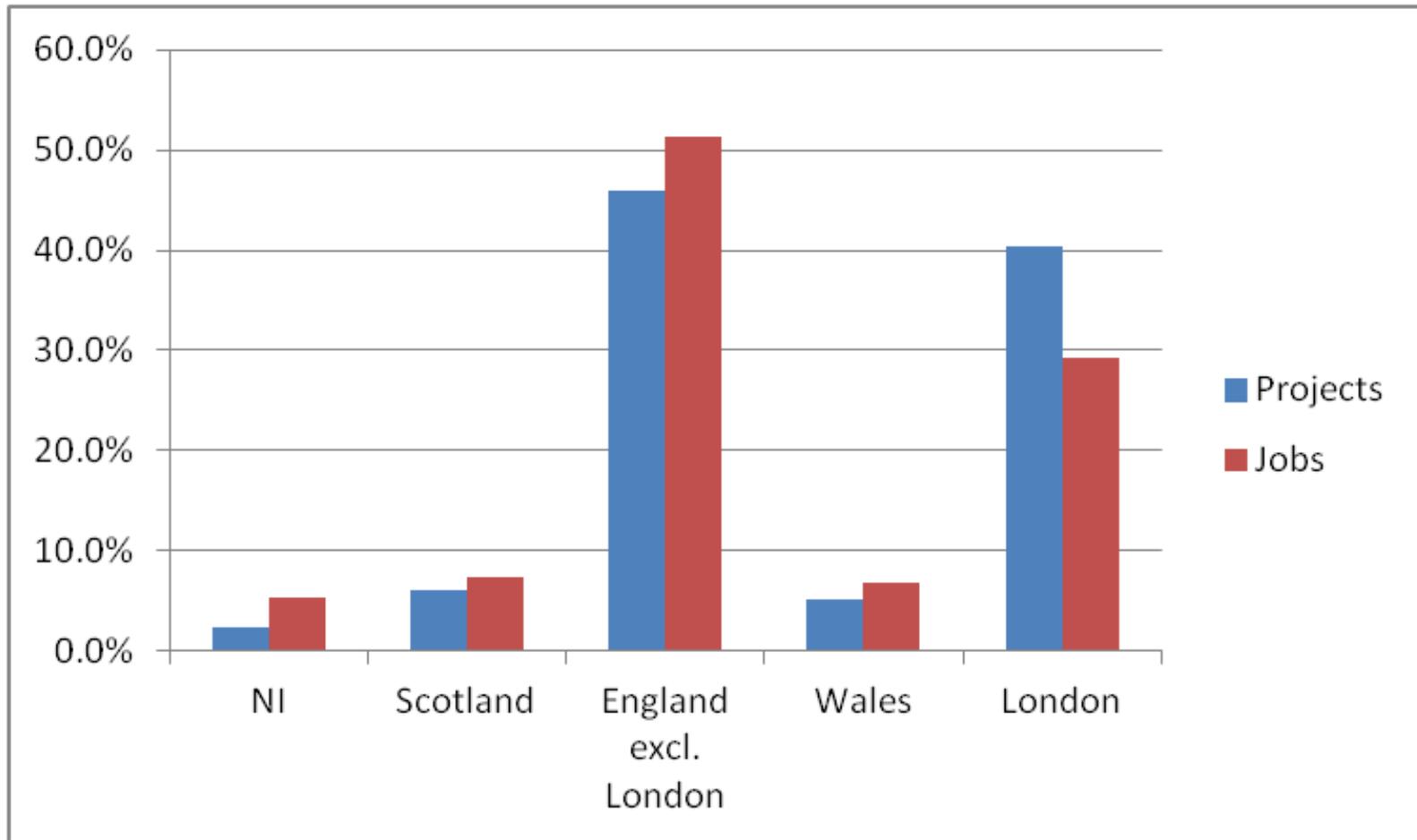
- Northern Ireland is the only part of the UK with a land border.
- While the *Troubles* reduced the economic connections with the Republic of Ireland below what one would expect (at least in relation to trade – see Morgenroth, 2008, 2011) there are strong economics, social and cultural ties between the two parts of Ireland.
- Northern Ireland also has significant economic connections with other EU countries.
- Exports to the EU account for about 40% of NI exports.
- The UK is the leading FDI destination in the EU but Northern Ireland accounts for a small share of this.
- In 2011 14,800 individuals commuted regularly between Ireland and Northern Ireland. 6,500 NI to ROI, 8,300 ROI to NI.

Destination of NI Exports



Source: DETI, Destination of exports made by High Export Potential companies by sector: 2004 - 2013

New FDI



Source: UK Trade and Investment. Inward Investment Report 2014/15

Impact of Brexit on Northern Ireland



- The effect of different types of trade agreements have been estimated in the international literature.
- EU membership increases trade by about 20% compared to a bilateral trade agreement with the EU (Hufbauer and Schott, 2007).
- The full disintegration effects will only emerge over time (Fidrmuc and Fidrmuc, 2003).
- NI exports could be down by between 6% and 10%.
- The UK might attempt to capture more FDI via lower corporation taxes and less regulation. However, FDI is very sensitive to EU market access with estimates suggesting that overall the UK would not attract more FDI (Barrett et al., 2015).