

Brexit makes no Economic Sense!

*Edgar Morgenroth
Associate Research Professor,
Economic & Social Research Institute (ESRI)
Adjunct Professor, Trinity College Dublin*

edgar.morgenroth@esri.ie



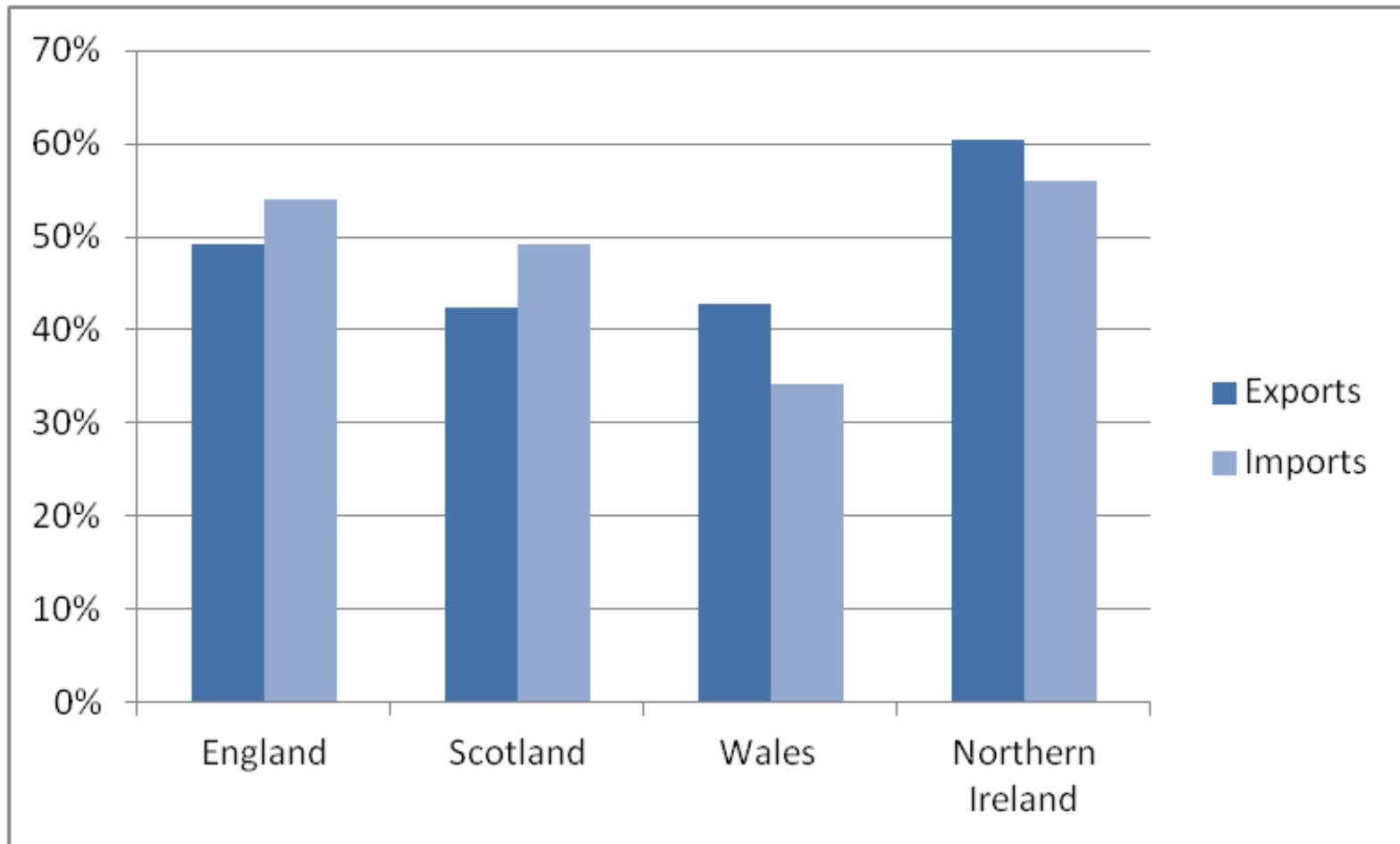
Aggregate Impacts

- **The results of independent research show that a Brexit is neither in the UK's, Ireland's or the EU's interest.**
- *London School of Economics (LSE)* - Allowing for dynamic effects the losses to the UK would be between 2.2% and 9.5% of GDP (Ottaviano et al., 2014)
- *National Institute of Economic and Social Research (NIESR)* - Brexit would result in 2.25% reduction in GDP (Pain and Young, 2004).
- *Economic and Social Research Institute (ESRI)* - A 1 per cent reduction in the level of UK output would lead to GDP being around 0.3 per cent lower than the baseline scenario over the medium-term (Barrett et al, 2015)
- *Open University (OU)* – A 2% reduction in UK GDP would result in a 3% reduction in NI GDP (Budd, 2014, NI Assembly Briefing Note).

Trade Benefits of EU Membership

- EU membership increases trade by about 20% compared to a bilateral trade agreement with the EU (Hufbauer and Schott, 2007).
- Reversing this trade integration benefit implies that NI exports could be down by more than 10% (12% in 2014) and those of Ireland by about 3%.
- The full disintegration effects will only emerge over time (Fidrmuc and Fidrmuc, 2003).
- Trade shares between the Czech Republic and the Slovak Republic more than halved in the 10 years following their separation in 1993 (remember both are EU members and the split was amicable).

UK Trade with the EU



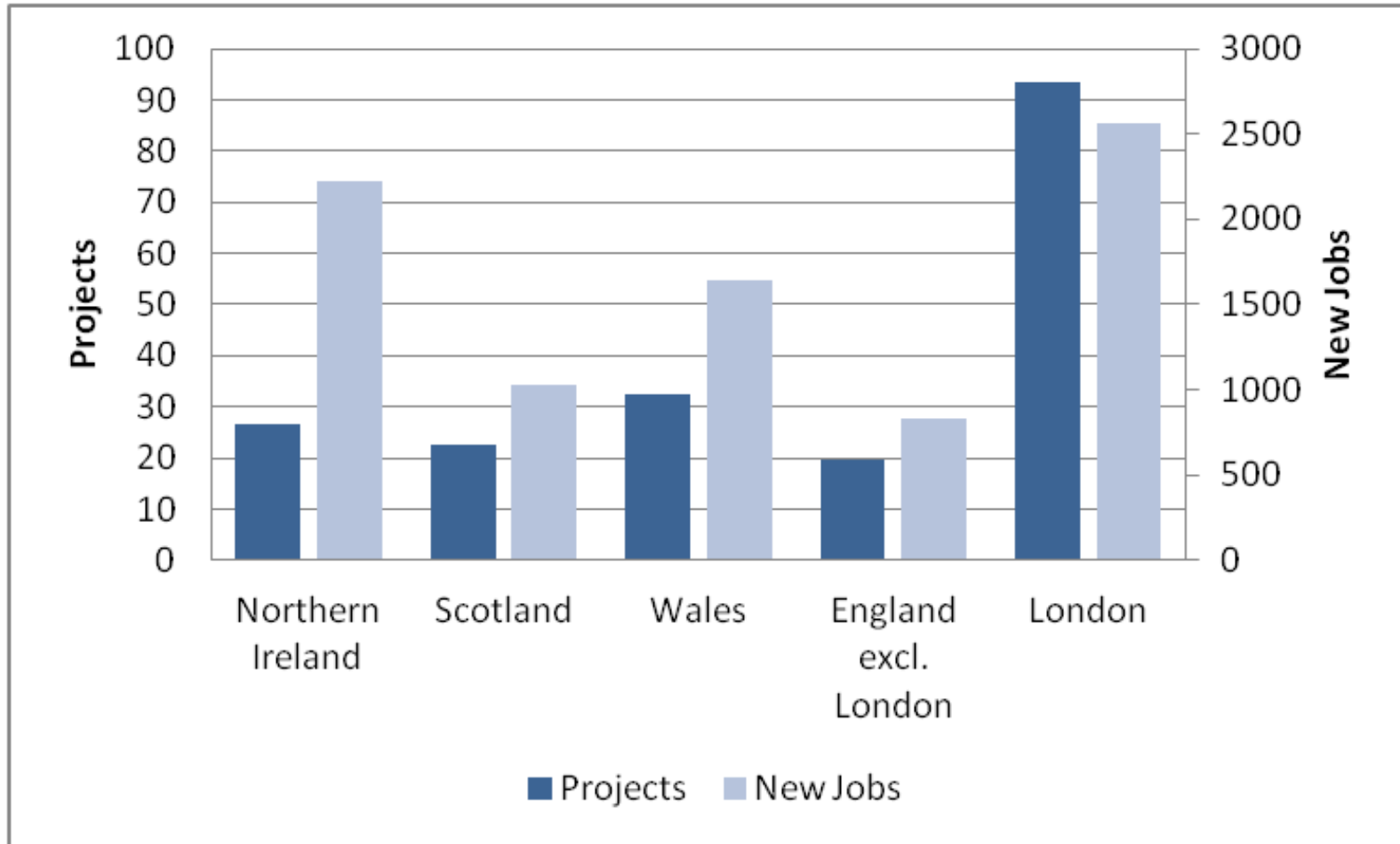
Source: HMRC UK Regional Trade Statistics 2014

Foreign Direct Investment

- Evidence suggests that EU membership has been a key factor in attracting FDI to the UK from outside as well as inside the EU.
- Reduced EU market access will more than undo the positive effect of moving to an 18% corporation tax rate (Barrett et al. 2015).
- For Northern Ireland the effect of a potential reduction of corporation tax to 12.5% will be reversed by a Brexit (Barrett et al. 2015).

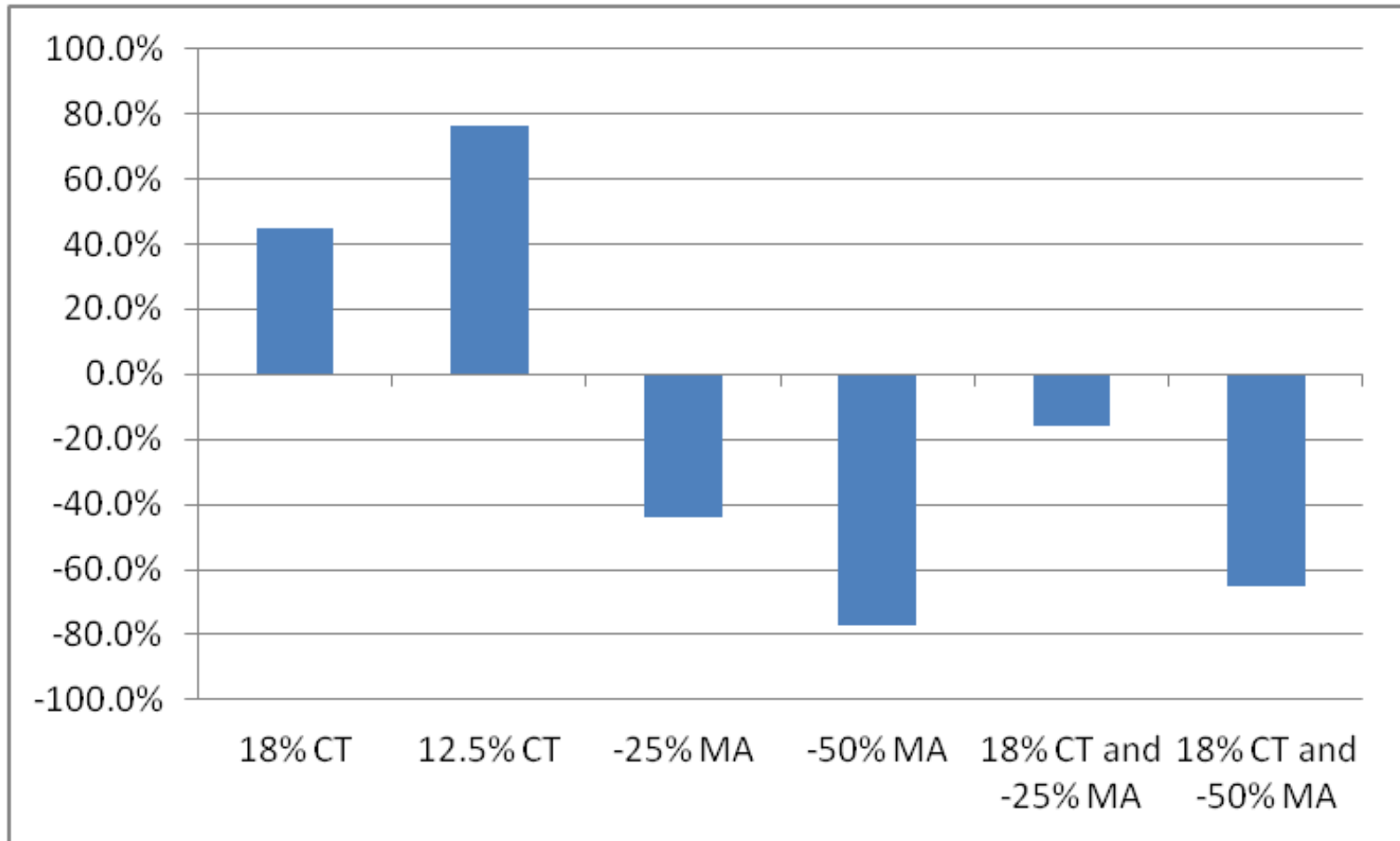
New FDI Projects and Jobs into the UK

(per million residents)



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

Change in Location Probabilities of new FDI (Greenfield) in the UK



Source: Own calculations based on Barrett et al 2015.

It's the economy, stupid!

- **While a Brexit might make some people in the UK feel better, it is very likely to make everyone poorer!**
- A UK inside the EU can play a strong role in driving positive reforms e.g. in terms of competitiveness.
- The UK is the most attractive destination for FDI in the EU – this has positive dynamic benefits for other countries (particularly Ireland).
- Further integration of EU markets will continue to have positive effects on FDI in the UK, particularly in business services, with positive effects on Ireland's output growth (via increased trade with the UK).
- The UK and Ireland are likely to benefit from additional trade with and investment from the US if the TTIP is successfully negotiated.
- There might also be similar agreements with Australia.