The WTO Option and the Northern Ireland Economy

Dr Eoin Magennis, Senior Economist
Ulster University Economic Policy Centre
ulster.ac.uk

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Agenda

• What is the WTO Option?
• How equipped is the NI Economy to meet this: overview, challenges and forecasts?
• NI and the trade question
• Closing thoughts
What is the WTO Option?
Why would you take the WTO option?
A case of choice or necessity...

➢ Making a choice...
  • UK is strong enough to ‘go it alone’ and relying on the WTO would allow new trade
deals outside the EU regulations or having to take account of agri interests
  • WTO options opens up the possibility of re-orienting trade towards new emerging
markets

➢ ...or the best of a necessity:
  • Two years of talks after 29 March 2017 to settle the terms of the divorce (monies,
assets and ‘custody’) 
  • Only when these are finished/agreed will talks formally begin on future relationships
over movement of goods, services, people, etc.
  • WTO membership or rules might be the fall-back, the avoidance of a cliff and the
reality of the hard/lengthy talks ahead – how ready is the UK to sign trade deals?
What is the WTO and how does it work?

Recent organisation with a long back story...

- Founded in 1995 as a global framework for trade relations between countries and successor to GATT (1948) and earlier 1920s conferences
- Aims to reduce tariffs, eliminate non-tariff barriers and produce predictable trade
- Same conditions without discrimination offered to all 164 WTO members (95% of world trade) with baseline rules on goods, services and intellectual property
- Members must apply a schedule of tariffs or combination of tariffs and quotas (in case of agriculture)
- Only exceptions where members sign bilateral deals or enter ‘customs unions’ (eg: EU) or sign deals with developing countries – not free trade but ‘freer trade
What do the tariffs look like?
Lowering levels but still significant for agri-food…

...and does not tell the full story for dairy, flour, etc
Simply put this option is the hardest of hard Brexits...

<table>
<thead>
<tr>
<th>10 EU policies or processes</th>
<th>No Brexit</th>
<th>Soft Brexit</th>
<th>Hybrid</th>
<th>Hard Brexit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full EU membership</td>
<td>EFTA EEA</td>
<td>EFTA Switzerland</td>
<td>Continental partnership</td>
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<tr>
<td>Single Market (SM) access?</td>
<td>Yes</td>
<td>Yes</td>
<td>Partial</td>
<td>Yes, but</td>
</tr>
<tr>
<td>Free labour mobility?</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Limited</td>
</tr>
<tr>
<td>Part of SM rules?</td>
<td>Yes</td>
<td>Yes</td>
<td>Partial</td>
<td>Yes</td>
</tr>
<tr>
<td>Say in SM rulemaking?</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Bound by ECJ SM decisions?</td>
<td>Yes</td>
<td>Yes</td>
<td>Partial</td>
<td>Yes</td>
</tr>
<tr>
<td>Duty-free access in goods?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Market access for services?</td>
<td>Yes</td>
<td>Yes</td>
<td>Partial</td>
<td>Yes</td>
</tr>
<tr>
<td>Part of EU commercial policy?</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes, Possibly</td>
</tr>
<tr>
<td>Part of EU agricultural policy?</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Contribution to the EU budget?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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</tbody>
</table>
How fit is the NI Economy for this: overview, challenges & the future
Context in economic growth striking
Irish GDP outstrips rivals

The Northern Ireland Composite Economic Index (NICEI) is an experimental quarterly measure of the performance of the NI economy based on available official statistics. This measure of output allows comparison of GDP in the UK and the Republic of Ireland.

Source: DETI
Labour market just about recovered

Labour market – Irish performance more modest

Quarterly employment index, NI, UK & ROI, 2008-2016
(2008 Q2 =100)

Source: ONS (UK & NI) & CSO (RoI)
Range of NI sectors growing
Show a degree of resilience

Employment change by industry, NI, Q1 2012 to Q3 2016

-6,000 -4,000 -2,000 0 2,000 4,000 6,000 8,000 10,000 12,000

Admin’ & support services
Health & social work
Restaurants and hotels
Manufacturing
Professional scientific & technical
Other service activities
Agriculture
Transport & storage
Information & communication
Elect’ & gas
Education
Finance & insurance
Arts & entertainment
Water supply & waste
Wholesale & retail
People employed by households
Mining
Construction
Real estate
Public admin & defence

61,000 net new jobs

Source: ONS
4 Key challenges to consider

Underlying economic weaknesses

1. NI Fiscal Deficit
2. Real income squeeze
3. Hidden labour market weaknesses
4. Productivity malaise
The NI Fiscal Deficit

2014/15 Effective Fiscal Deficit £9.8bn

Source: HMRC, NI Executive, PESA

Note: Expenditure figures are sourced from the NI Budget 2015-16 Accessed
Note: Figures may not sum due to rounding
Real income squeeze
A decade of no wage growth in NI and spending fuelled by borrowing

Source: ASHE & ONS, UUEPC analysis
Hidden labour market weaknesses
Part-time employment and inactivity both increasing

Source: QES (Part time= less than 30 hours)
Productivity malaise
Germany 5 days, UK 6 days, NI 7 days!

GDP per hour worked (\$, PPP), OECD, 2015

UK Productivity gap vs. Germany: -19%
NI Productivity gap vs. Germany: -34%

Notes: Data based on US Dollar, constant prices in 2010 PPP’s. * denotes data for selected countries from 2014
Source: OECD, UUEPC analysis
Three scenarios for the UK economy

1. **The sunlit uplands**
   - “Consumers continue to defy expectations”
   - Consumers keep spending and unemployment keeps falling

2. **Muddling through**
   - “Nothing goes spectacularly wrong and nothing particularly right”
   - Slowing economy as inflation bites, investment flat and exports bounce weakens

3. **A Wile E. Coyote moment**
   - “Difficult negotiations with the EU create widespread fear”
   - Consumption stalls, government spending is weak and the only driver are exports
...strong growth continuing (>2% pa) in Ireland but tapering off from 2018

Sources:
Dept of Finance Monthly Bulletin (Nov 2016)
ESRI Quarterly Ec C/tary Autumn 2016
Oxford Economics (Nov 2016)
Central Bank Bulletin (Jan 2017)
OECD Economic Forecast (Nov 2016)
…while NI gets to avoid recession assuming Brexit does not go bad…

Upper scenario- this is ‘highly aspirational’ and assumes the NI employment rate converges with current UK level. This scenario includes lower corporation tax but is more influenced by the succession of the PFG.

Baseline- the most likely economic outcome based on moderate ‘Brexit’ assumptions, and no reduction in the rate of Corporation Tax due to uncertainty over price and mechanism.

Lower scenario- assumes a ‘Brexit’ goes wrong scenario in which trade is severely impacted and consumers contract spending. Outcome closest to the lower estimates of long term GDP by independent forecasters of ‘Brexit’ for the UK.

Baseline is a ‘muddling through’ scenario with little upside of 30,000 new jobs in next decade
NI and the trade question
Significant currency devaluation
Good for exports but creates inflation

Sterling vs. Euro & Dollar, 2000-2017

- Sterling weakening
- Dollar has been gradually strengthening since 2008
- Euro was weakening but now reversed

Source: BoE

Dollar has been gradually strengthening since 2008
Euro was weakening but now reversed

Source: BoE
EU28 Share of UK Total Exports (%)

Source: CBR
Average over the 20 years of two thirds of NI exports going to the EU28 and c.60% of this to the nearest market: Republic of Ireland

Source: HMRC RTS
How much are we exporting?

Manufacturing sells 80% outside NI but most sectors less than 25%

Challenge is clear: market concentration and too few exporters

Source: DfE
Cross-border manufacturing trade
€3bn in goods…dominated by food & drink

By one estimate more than €300 million would be paid in tariffs under WTO rules, 85% of this payable by agri-food products

Source: InterTradeIreland
How exposed are sectors to cross-border trade?

Agri-food and materials sectors most exposed
Closing thoughts
Closing thoughts
Challenges certainly

- Brexit will bring challenges:
  - Process thus far of ‘promissory slippage’ is likely to continue
  - Immigration controls likely and therefore access to talent/ labour
  - With WTO rules will come a border (however frictionless is promised) – political as well as economic problems will result – where will the border be?
  - General uncertainty impacts business decisions both investment and recruitment – likely to deepen if WTO rules look like the destination
  - As details of negotiations (and choices) emerge, expect volatility in financial markets
Closing thoughts
... any silver linings?

• A deal will be struck – in both sides interests (assuming the divorce settlement is reached) to ensure trade and other cooperation continue given the mutual reliance (even more so in the NI case)

• Thus far the pessimistic assumptions of independent analyses have proven over-stated – will this continue?

• Will a deflated currency and easing of austerity help growth in short-term?

• Can the UK politicians remain as floundering as they currently appear?

• What options can be presented (sectoral, migration, sub-regional) to ensure NI’s bespoke/special/contingent needs are met?
UEPCE Local Government Team

Contact Details

Dr. Eoin Magennis, Senior Economist
07825 140 326
e.magennis@ulster.ac.uk

Andrew Park, Assistant Economist
02890 368 917
a.park@ulster.ac.uk

Laura Heery, Assistant Economist
02890 366 219
l.heery@ulster.ac.uk