Overview

The economics of the UK's exit from the EU is complex and the published estimates of possible economic effects rely on a range of assumptions that are impossible to verify with any certainty. The debate is complicated further due to its politicised nature, making interpretation of any analysis more complex. Figures have been quoted, printed, tweeted and re-tweeted with very little attempt to unpick the assumptions and fully understand how the projections are arrived at. When reporting effects, should they be presented in GDP terms or GDP per head? Do the models take account of currency movements, government fiscal policy, migration policy, import substitution, trade displacement? When these complexities are set alongside a UK economic performance that has not tracked most forecasters projections in the immediate post-referendum aftermath it is not surprising that there is increasing apathy about the predictions of experts.

Is it possible to have a more considered economic debate about the implications for Northern Ireland? To do so requires acceptance of the underlying complexities of the exit and the ways in which economies function. There are clearly challenges and opportunities ahead, anyone suggesting that Brexit will be universally positive, or equally universally negative, should be treated with scepticism. There are subtleties and grey areas in all areas of economic impact.

The Ulster University debate is focussed on moving towards possible solutions, thinking about what would work for Northern Ireland and to do that we will frame the discussion around a series of four questions relating to the main areas of economic impact. To reflect the complexities, each of the questions has a statement one might typically see from either side of the Brexit debate. This shows the different perspectives on the possible economic impact and will help focus the mind towards solutions for Northern Ireland.

Headline long term impact of leaving the EU on UK GDP by 2030	
Forecaster	Range
CBR (WTO rules)	-1.8%
HMT	-3.4% to -9.5%
OECD	-2.7% to -7.7%
NIESR	-1.5% to -7.8%
PwC/CBI	-1.2% to -3.5%
Oxford Economics	-0.1% to -3.9%
Open Europe	+1.6% to +2.2%
Economists for Brexit	+4.0%

Source: Institute for Fiscal Studies (2016), Brexit and the UK's Public Finances Table 3.1 Page 18, CBR, (2016), The Economic Impact of Brexit
Note 1: The ranges included in the table represent the total impact on GDP across a range of trade agreement scenarios, e.g. WTO/ Free Trade Agreement
Note 2: CBR figure average impact 2021 – 2030 (impact weakens over time). The impact on GDP per head varies across the different approaches depending on the migration assumptions used.

Issue 1: Trade

A more global trade perspective

"The EU economy is a relatively slow growing part of the global economy and has been falling in relative importance for UK exports in recent years. The opportunity to craft new trade deals with faster growing parts of the world and move away from a cumbersome EU that takes too long to agree any trade deal will benefit the UK and consequently NI. Given the scale of the UK economy financial realities in EU member states will loom large and a favourable trade deal will emerge as it is in everyone's national interest. Regardless of the final deal, tariffs are modest in most fast-growing sectors and as they would apply in both directions there will be change but winners will emerge to offset losers."

Costly damage from less favourable status with dominant trade partner

"The business of making trade deals is complex and slow, the UK will move to WTO tariffs and will suffer significant barriers with its biggest trading partner. Non-tariff costs will be significant and the burden of custom costs will hit hard. Other countries will place a higher priority on trade deals with the larger EU than the UK making for slow going in establishing new UK deals. The agri-food sector on the island will suffer irreparable damage because of destabilising tariffs."

Questions to consider:

- *How much does NI want a free trade deal with the EU to replace the status quo?*
- *How significant are non-tariff barriers to trade?*
- *Why has the NI export performance not mimicked the RoI and transformed the economy in recent decades if membership of the EU is so beneficial? Are differences in tax policy and the role of FDI in Ireland's success factors?*
- *Where can a region like NI, given its scale and peripheral nature, hope to trade with if not its near neighbour?*
- *Is special status possible with a region? How would that work in practice?*
- *Are tariff-rate quotas a realistic prospect in the agri-food sector?*

Share of total NI sales (£67bn) by destination	
Location	% of total
NI	66%
GB	21%
Ireland	5%
Other EU	3%
RoW	6%

Source: Department for the Economy: Broad Economy Sales & Exports (2015)

Top 5: Largest Average product tariffs by manufacturing product	
Product groups	Applied tarfiff ave
Dairy products	42.1
Sugars & confectionary	25.2
Beverages & tobacco	20.7
Animal products	17.7
Cereals & preparations	14.9

HMRC Regional Trade Statistics (2015), CIVITAS, UUEPC analysis

Issue 2: Migration

Free movement of labour is damaging to both the UK and the regions from whom it draws the talent

"The availability of relatively low cost labour has allowed firms to retain a large share of profits and rather than invest in new productivity boosted tech and processes it has sought to increase executive pay, and dividend payments. The ability to keep wage growth suppressed has limited spending power in the domestic economy and reduced opportunities for local labour. The pressure on public services and infrastructure has created increased levels of social tension and the flow of migrants has deprived their own economies of much needed talent (and jobs) to help them grow. It has facilitated a complacency with the domestic education and welfare system leading to entrenched problems of economic underperformance and deprivation"

A region as small as NI relies on global talent and migrants workers ensure the ongoing viability of many firms

"It is naive to think all the talent firms need is on their doorstep and migrant labour has helped raise standards, fill vital gaps in many firms' workforce and allowed sectors to remain viable that would not have been able to do so otherwise. Manufacturing, health, care, tourism and administration sectors all rely on significant levels of migrant labour and without this flow many firms could not remain viable. It is also important to note that the flow of migration into the UK is roughly half non-EU, reflecting a wider need for labour that will impact on competitiveness if it is curtailed."

Questions to consider:

- *Is it the pace of migrant flows that is causing social tensions?*
- *Can firms currently requiring significant migrant labour remain viable if this flow is constrained?*
- *What sort of migration policy would work for Northern Ireland, does it need to be bespoke given the different labour market compared to, for example, London? Would a pointsbased system work?*

% non UK/RoI born workers in Northern Ireland, by sector, 2016	
Sector	% of total
Manufacturing	24%
Admin & support services	19%
Restaurants & hotels	19%
Total economy	9%

Source: LFS 2016 4 quarter average

Issue 3: The Border

Technology permits a virtual border and there is no need for a major divergence from the current situation

"There is no need to have any form of physical border. Technology has advanced to such a point that a virtual border is entirely feasible. As all businesses know exactly what they are shipping and to where the ability to electronically tag and measure this flow is relatively straightforward. Number plate recognition will work for individuals and the island nature allows ports and airports to act as gateways for the movement of people. A virtual border already exists given the differences in currency, mobile tariffs, excise duties and other practical differences. There is no need for the establishment of a customs border to present any real impediment as is evidenced in other parts of the world. Any suggestion that a virtual border damages the PEACE process is misleading and disingenuous."

A physical border will be needed, will detract from trade, damage border areas and could damage all-island relations

"The likely departure from the Customs Union necessitates a border and given the volume of border crossings some physical presence will be necessary. The complexities for people commuting across the border means border locations will be hit hard, damaging already fragile locations in Northern Ireland. Aside from the direct costs of additional paperwork and potentially delays, there will be a disincentive to cross border economic activity. The erection of borders may also have indirect economic costs through the damaging of all-island relations"

Questions to consider:

- *Is a virtual border possible with technological advances (such as toll tags)?*
- *How big an obstacle is a border to trade will the paperwork and delays be sufficiently onerous to matter?*
- *Does the use of different currency and a range of practical differences not mean a virtual border already exists and is 'priced in'?*
- *How important would a free-trade agreement be to easing border difficulties. Is the ROI government lobbying hard enough for an FTA?*

Issue 4: Direct Funding

EU finding is modest in scale, may not be as effectively targeted and was always meant to be time limited

"The EU provide relatively modest sums of money to NI compared to the UK. The prioritisation of the EU spend has often been tailored to EU objectivise that may not best fit the local economy. CAP has long been criticized, and the reliance on PEACE funding is disappointing 20 years after the Good Friday Agreement. Development of bespoke funding arrangements best tailored to NI's economic circumstances would be more effective"

The EU provides funding that would be unlikely to be replaced and helps the region's weakest performing areas

"The EU funding streams are vital to particular areas and to projects that are unlikely to secure funding from the UK. The focus on disadvantaged areas and socio -economic projects would easily be lost and there are no guarantees that UK will have the additional money to spend, or that it would choose to prioritise NI in the way that the EU did."

Questions to consider:

- *How critical is the EU PEACE and Interreg funding?*
- *How critical is CAP funding to agri-food?*
- *Could / should it be replaced by similar funding streams from the UK. What changes would make a successor scheme more appropriate? Is UK or NI control of spending more democratic?*

EU Funding Programmes in Northern Ireland 2014-2020	
Programme	Euro (Millions)
Common Agriculture Policy (Pillar 1)	2,299
Common Agriculture Policy (Pillar 2)	228
ERDF Investment for Growth & Jobs	308
INTERREG	240
PEACE	229
European Social Fund	205
European Fisheries Fund	24
N.Ireland Rural Development	/

Source: Eurolink

Note: Other EU funding programmes available through wider progammes including Horizon 2020,Creative Europe & Erasmus +

Next Steps

There are many other aspects of the economics of Brexit, this paper has focussed on the most critical from a local perspective. The issues are not as black and white as the deliberately provocative statements set out in this summary suggest but this approach highlights the wildly different views of the areas of contention. As the negotiations evolve and the policy choices becomes clearer it will be possible to revisit and analyse more precisely what the possible impacts will be. As with all matters in the economy it depends how businesses, consumers and government react that will determine the overall impact of any changes.

The Northern Ireland economy has much to be proud of, it has made great strides in economic terms in recent decades and the wealth of world class businesses in sectors as diverse as advance manufacturing, cybersecurity, integrated healthcare, media, tourism and professional services reflects the strong base on which the region heads into this period of great change. However, it is also important to recognise that a long period in the EU left many economic problems unresolved.

The region still depends heavily on the UK for substantial funding every year to maintain standards of living, productivity and wages still lag persistently behind UK levels and a long tail of under-performance in education and an underdeveloped physical infrastructure draw attention to the need for policy progress, in or out of the EU. Brexit is a momentous event but it cannot become such a distraction that all aspects of economic policy making are side tracked. As the EU exit nears, the critical questions are; what has worked, what hasn’t, what is critical for NI going forward and what ideas for a successful post Brexit economy can we put forward to aid the negotiations?

Selected Brexit Reading

Patrick Minford, Understanding UK Trade Agreements with the EU and Other Countries (March 2016)
http://patrickminford.net/wp/E2016_1.pdf
A cost/benefit analysis which argues that the UK, post-Brexit, would be able to sign its own trade agreements and would be removed from a protectionist EU which forces higher prices on the UK consumer.

Capital Economics, The Economic Impact of 'Brexit' (February 2016)
https://woodfordfunds.com/economic-impact-brexit-report/
Balanced assessment of the economic impact which concludes that the trade effects of Brexit would be small and on the upside, if the UK uses its powers to negotiate new trade deals.

Monica Ebell, 'Assessing the impact of trade agreements on trade', National Economic Institute Review (November 2016).
http://journals.sagepub.com/doi/pdf/10.1177/002795011623800113
Argument that any future FTAs outside the EU will find it difficult to replace the gains made from 'deep' agreements.

House of Lords, EU Committee, Brexit: Trade in Goods (March 2017)
https://www.publications.parliament.uk/pa/ld201617/ldselect/ldeucom/129/129.pdf
Detailed assessment of the UK's trade patterns, tariffs, non-tariff barriers and the potential trade agreements.

Martina Lawless and Edgar Morgenroth, The Product and Sector Level Impact of a Hard Brexit across the EU (November 2016)
https://www.esri.ie/pubs/WP550.pdf
The paper looks at the potential impacts of tariffs and elasticity across some 5,200 products to estimate how the value of EU trade to the UK would fall (by 30%) and UK trade to the EU (by 22%). The big difference is when the impact of these losses are applied to the country's total exports – the EU would lose 2% of its total trade while the UK would lose 9% of its.

Katy Hayward, Brexit and the Irish Border: Managing the UK/Ireland Impact (October 2016)
http://pure.qub.ac.uk/portal/files/123024606/Brexit_and_the_UK_Ireland_Border_Discussion_Paper.pdf
Discussion paper on the different options around managing an Irish Border in a post-Brexit world. Contains ideas on 'elastic Brexits' and where a 'hard border' might be located.

SPERI, UK regionals and EU structural and investment funds
http://speri.dept.shef.ac.uk/wp-content/uploads/2016/05/Brief24-UK-regions-and-European-structural-and-investment-funds.pdf
Guide to the UK economic landscape and how NI stands out as a % of GVA.

Jagjit Chadha, When experts agree - forecasts around the impact of Brexit
http://voxeu.org/article/when-experts-agree-how-take-economic-advice-over-referendum
A column explaining the consensus view of economists views on the negative impact of leaving the EU

CBI, Leaving the EU: The implications for Britain (March 2016)
http://www.cbi.org.uk/news/leaving-eu-would-cause-a-serious-shock-to-uk-economy-new-pwc-analysis/leaving-the-eu-implications-for-the-uk-economy/
A detailed quantitative assessment of the possible implications for the United Kingdom (UK) economy as a result of leaving the European Union (EU)

HMT, The Long term economic impact of EU membership and the alternatives (May 2016)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517415/treasury_analysis_economic_impact_of_eu_membership_web.pdf
HMT official publication aiming to provide rigorous and objective economic analysis of the long-term impact of remaining a member of the EU compared to the alternatives.

CBR, The Role of Gravity Models in Estimating the Economic Impact of Brexit (June 2017)
https://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/working-papers/wp490.pdf
Analysis of the role of Gravity models in estimating the impact of Brexit on trade and FDI. This paper examines the OECD and IMF long term impact of Brexit and replicates the Treasury's model in detail with different conclusions of the overall impact.