

Brexit will be negative – but how negative is the question

The fourth book in our Bite-Size book series ‘Brexit and Northern Ireland: Bordering on Confusion?’ has now been published and is available for you to enjoy! We’re celebrating the book’s release by giving you a sneak peek at Centre for Brexit Studies Researcher David Hearne’s chapter.

Solving the issue of the border between Northern Ireland and the Republic of Ireland has proved intractable in the Brexit process. The issue of the Irish border and backstop could potentially derail an agreed Brexit creating significant economic damage to both parts of the island as well as undermining the peace achieved by the 1998 Good Friday Agreement.

Edited by ex-BBC journalist John Mair and Dr Steven McCabe from the Centre for Brexit Studies at Birmingham City University, as well as Leslie Budd from the Open University and Neil Fowler, the book includes a foreword from long-standing Northern Ireland commentator Malachi O’Doherty and an afterword by Daily Mail journalist Peter Osborne.

The book examines the range of questions about Brexit and Northern Ireland from a wide variety of perspectives and is a major contribution to the debate about the issues.

Enjoy your sneak peek below...

By David Hearne

There has been a plethora of academic work investigating the impact of Brexit on the UK, particularly from the perspective of its economic impact.

Much of this work investigates the impact of Brexit at a national level, where a variety of estimates have been produced. In terms of the subnational impact (both on Northern Ireland and more generally on the regions and nations of the UK), the ultimate result will in part depend on the overall economic impact. Government can take steps

to cushion particular areas or groups from any blow, but the cost of doing so will then fall on others.

At this point it is worth addressing the elephant in the room: the prognostications of economists do not have a fantastic reputation, particularly since the financial crisis of 2008.

Some of this opprobrium is deserved, but much is not. Forecasting has a well-justified reputation for inaccuracy, and most academic economists eschew it for this reason. However, where forecasts are typically unconditional – ‘the economy will grow 3 per cent this year’ – academic estimates are usually conditional on other things remaining the same (i.e. they are presented *ceteris paribus*) and these have a much better reputation for accuracy.

Nationally we can be confident that the economic impact of Brexit on the UK will be negative, although there is considerably uncertainty as to its magnitude.

This uncertainty is substantial – one paper suggested that plausible estimates of the cost of Brexit lie in the range of a 1 per cent to a 10 per cent of per capita income (Sampson, 2017). In my judgement, this is a reasonable assessment. Academic articles that predict anything other than a negative economic impact from Brexit are extremely rare. Those that do so (Minford, 2016, 2017), typically involve assumptions that many would find implausible (Sampson, Dhingra, Ottaviano, & Reenen, 2017).

On a subnational level, most work suggests that Northern Ireland would face a similar hit to the UK, although again there is considerable uncertainty over the specifics. One important work found that 11.7 per cent of the Northern Irish economy was exposed to EU demand (Chen et al., 2018). This does not mean that leaving the EU will imply that the Northern Irish economy will shrink by 12 per cent but rather gives the extent of its potential exposure.

To put this into some kind of context, it is rather lower than some parts of Great Britain (e.g. Cumbria or Lancashire at over 15 per cent of GDP), but is similar to levels of exposure to Brexit in the Republic of Ireland (estimated by the same authors at just over 10 per cent of GDP).

Different methodologies

It is worth pointing out that different methodologies give quite a wide range of estimates. The related findings of Los, McCann, Springford, and Thissen (2017) contrast considerably with those of Dhingra, Machin, and Overman (2017) in terms of the relative spread of 'Brexit pain'¹. Again, it is worth noting that in spite of these differences, the net economic effect of Brexit is estimated to be negative in all scenarios and across all regions.

Unsurprisingly, Northern Ireland trades particularly intensively with the Republic of Ireland. The overwhelming majority of this trade is represented by trade in goods (Northern Ireland Statistics and Research Agency, 2019a), which is likely to be particularly affected by any cross-border frictions.

Frustratingly, there are two different sources of data on Northern Irish trade, each with its own set of strengths and weaknesses. Nevertheless, the broad picture is clear. According to HMRC, Northern Ireland exported some £3.2bn of goods to the Republic of Ireland and imported approximately £2.2bn of goods in 2018 (HMRC, 2019).

This figure has grown substantially since 2015 (*ibid.*) Indeed, bilateral trade in goods with the Republic of Ireland constitutes nearly one third of Northern Ireland's total international trade in goods, although its trade with Great Britain is much greater yet (Northern Ireland Statistics and Research Agency, 2019a), unsurprisingly given economic evidence on intra-country versus inter-country trade (Comerford & Rodríguez Mora, 2019).

Of particular concern must be the fact that such a large proportion of total Northern Irish trade with the Republic is in agricultural products and food.

Of the £5.4bn total trade, over £1.9bn is in food and live animals (HMRC, 2019). Since sanitary and phytosanitary (SPS) checks are by far the most onerous of all checks imposed on imports to the EU, this is likely to prove a major issue.

Moreover, since the EU imposes high tariffs on agricultural imports the costs for those engaged in this trade could be insurmountable. Insofar as economic integration is a force promoting peace – since all sides have a pecuniary interest in avoiding conflict – the loss of this trade is a political as well as an economic concern.

Vehicle crossings and their impact

There were some 46m vehicle crossings at the border between the Republic of Ireland in and Northern Ireland in 2018 (Northern Ireland Statistics and Research Agency, 2019b). Of these, some 3.84m involved HGVs and a further 4.98m involved LGVs.

As such, it is clear that any impediment to traffic flows at the main borders would have serious repercussions. These cannot be avoided in the event of a hard border even with the most streamlined of operations, particularly if the UK diverges from EU regulations in agriculture etc. An international border would impede the free flow of goods traffic.

Lawless and Morgenroth (2019) suggest that total Irish trade with the UK could fall by more than 30 per cent (representing a total fall of over 4 per cent of all Irish trade) as a result of tariffs.

Given that they too find that agriculture will be one of the sectors hardest hit (particularly meat and dairy), there is clear scope for economic damage across the island of Ireland and of significant new impediments to North-South trade.

More broadly, even in the absence of a hard border, there is evidence that the economy of the Republic will be smaller than it would have been in the absence of Brexit (Bergin, Garcia-Rodriguez, Morgenroth, & Smith, 2017).

The heightened inflation that followed as a result of Sterling's depreciation after the 2016 referendum has already hit incomes in Northern Ireland and some evidence suggests that this impact has been more severe in than in other parts of the UK (Breinlich, Leromain, Novy, & Sampson, 2017).

Meanwhile, evidence from a ‘synthetic counterfactual’ economy generated by a matching algorithm already suggests that the UK economy is non-trivially smaller than it would be had it voted to Remain in the EU in 2016 (Born, Müller, Schularick, & Sedláček, 2017).

To conclude, there is substantial uncertainty regarding the magnitude – but not the direction – of the impact of Brexit on the UK economy in general. Such uncertainty naturally extends to Northern Ireland, although there is some tentative evidence that the impact will be more negative than for the UK as a whole. Most analysis suggests that a hard Brexit would lead to significantly more economic pain than a soft Brexit, although in both cases the total impact is negative vis-à-vis the status quo ante.

Of particular concern in the Northern Irish context is the impact on agriculture, which represents a large proportion of total cross-border trade.

In addition to the economic impact of trade frictions, there are likely to be clear symbolic and highly visible effects. These will take the form of SPS inspection posts, the need to ensure proper customs clearance for any goods moving south of the border (representing a very obvious change to those involved) and the potential for culls, wasted product and other visible agricultural disruptions.

Brexit and Northern Ireland: Bordering on Confusion? Is available NOW in paperback and in Kindle. Find out more [here](#).

Join us at one of the launches we are hosting to celebrate the release of this book!

Brexit and Northern Ireland: London Book Launch

Hosted by Dr Steve McCabe, with Vernon Bogdanor CBE, Paul Glennon & Dr Graham Gudgin

5pm-7pm

Thursday 17 October 2019

University Women’s Club 2 Audley Square London W1K 1DB

Free tickets via Eventbrite [here](#).

Brexit and Northern Ireland: Belfast Book Launch

Hosted by Róisín McAuley, alongside Katy Hayward, Dr Leslie Budd, Irwin Armstrong, Aodhan Connolly and Brian Feeney

5pm-7pm

Thursday 24 October 2019

The Open University 110 Victoria Street Belfast BT1 3GN

Free booking via Eventbrite [here](#).