

Between Hybridity and Hubris: The possible economic effects of the Northern Ireland Protocol

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The recent excellent paper by Birnie and Brownlow shows that Great Britain (GB)-Northern Ireland (NI) trade flows amounted to roughly the sum of those between NI and the Republic of Ireland (ROI), the rest of the European Union (EU) and the rest of the World^[1]. But, as a consequence of the NI Protocol (NIP), negotiated as part of the EU Withdrawal Act (WA), so as to avoid a hard border between the two parts of Ireland, non-tariff barriers have been erected within the UK internal market. As Birnie and Brownlow note:

Nineteenth-century Prussian chief of the general staff Helmuth von Moltke declared, 'No plan survives contact with the enemy'. Only weeks after the end of the Brexit transition period on 31 December 2020, plans for handling Brexit in Northern Ireland (NI) have been bruised by contact with reality.

It was reported in the Financial Times that the leadership of the Democratic Unionist Party (DUP) had previously lobbied the UK Government to negotiate a Swiss-style agreement to avoid the current creating complications around taxes, tariffs and regulatory compliance as a result of the application of the NIP. They have denied this but are seeking a judicial review of the NIP joining the other Unionist parties in this endeavour. Perhaps wiser counsel would have pointed these parties to assess (and possibly challenge) the Supreme Court judgement of 2017 of the Sewell Convention that applies when the UK Parliament wants to legislate on a matter within the devolved territories. It ruled that it is a political convention that has no constitutional force. This political manoeuvring to undermine the NIP appears to be another Brexit mutation as its pandemic quality extends

its economic challenges for regions and sectors in what appears to be the failing Union of the UK.

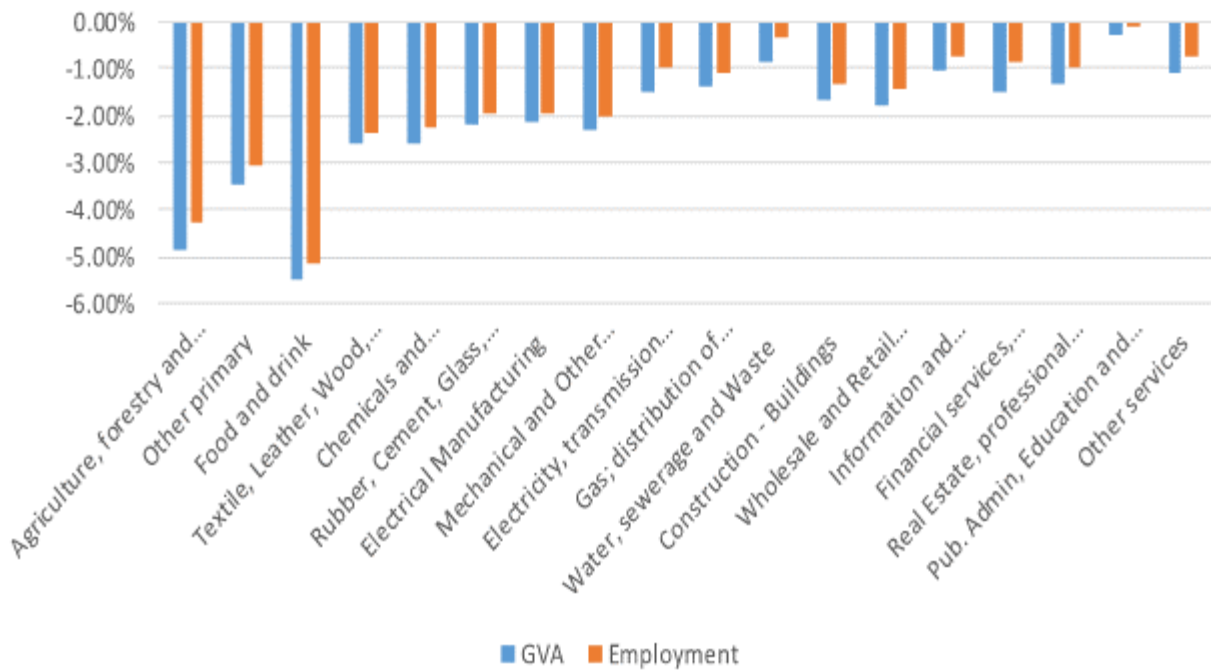
Northern Ireland's Unique Challenges

The unique constitutional position of NI and its relationship to the ROI appears to be poorly understood by many commentators, particularly in England. In a sense, NI was always a hybrid economy that given many parts of its function as part of an all-Ireland economy single market, but the perverse effects of the NIP have reinforced this. The NIP as the compromise from the rejection of the NI backstop is actually a worse outcome in the effective border down the Irish Sea with its asymmetric trade effects. It appears to follow that hybridity and perversity appear to be combining into a heady brew that may be too intoxicating in the short to medium term.

The NI Economy Department produced a paper in December 2020 on the direct economic impact of the NIP based upon a number of scenarios. The nearest one to the current trade deal shows forecasts for the long-term impact (15 years) on Gross Value-Added (GVA) and employment by sector as displayed in the figure below. We can see that the Agri-food sector as a whole could be worst affected, exacerbated by the impact of and policy responses to Covid-19. More importantly, the current increased transaction costs imposed on this sector, as a result of the need for customs declarations and health certificates, is reinforcing NI's hybrid status within the UK.

In the case of mince and sausage meats there is a grace period of 6 months for these types of product originating from GB. In the case of other Agri-food products they have been banned since 1st January 2021. One conclusion is that there is a perverse incentive for NI to produce these products that could then be exported to the ROI and the rest of the EU given its Single Market and Customs Union alignment. A similar argument holds for other key sectors, for example new business and professional services associated with managing the new customs and regulatory arrangements, if they are located in NI. These are more medium-term prospects, however, but even with optimism bias for, say, key sectors like aerospace we are in the Donald Rumsfeld realm of "known unknowns" and "unknown unknowns" regarding uncertainty: itself a cause of increase transactions costs. Given these possibilities it can be speculated that

the NIP is effectively the only industrial strategy in town for Northern Ireland.



The Dance of Industrial Strategy in Northern Ireland

History can be described as a dance to the music of time, in which different rhythms accompany the changing years and seasons. Such a description could equally apply to public policy, especially industrial strategy and associated outcomes in NI. The last proposal was *Economy2030: A consultation on Industrial Strategy for Northern Ireland* published in 2017. Its overview is shown graphically below that could be written for any economic development strategy, whose context can be danced around by policy makers anywhere.

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The objectives of *Economy2030* are to position the NI Economy competitively using global competitive indicators (of the kind beloved by the World Economic Forum) against other economies. These include the ROI; Scotland, Denmark; Finland; Estonia; Israel; Singapore and New Zealand: an eccentric mix to say the least. There is no analysis of the impact of Brexit that is the driving force for the outcomes of the NIP, or that the majority of NI’s electorate voted to remain in the EU it in the 2016 Referendum. Yet in adapting to the perplexing circumstances of the NIP, businesses and consumers in NI are current being beset by its potential industrial policy applications that are possibly damaging. In the present environment hybridity appears to meet perversity.

What is to Done?

“What is to be done?” is the title of Lenin’s essay on the future of the Russian Revolution. In a sense, NI is facing a revolutionary situation in the face of the triple whammy of Brexit, the NIP and whole of Ireland being hard hit by Covid-19. The challenges are that there is a tendency at times of crisis for hubris to dominate politics and economics in NI. In the current situation this assertion could equally apply to the UK government exacerbated by a sense of disinterest in all things Irish among the English commentariat. The pressures to return to the hubristic economics of austerity are ever present in Westminster in whatever outcomes post-Covid brings. For NI this would be severely damaging as it adjusts to its new strategic position with respect to the whole of Ireland and the EU27.

The danger is that this resolution will not occur by the time of the 2024 review of the NIP that coincides with the next UK General Election. There may be some institutional light at the end of the tunnel if the current economic challenges are resolved to some extent. Much of solving these challenges rests with the Joint Committee, as part of the EUWA. Part of that institutional light is The Open University: the largest UK university and the only all-Ireland one. One can look at other current and future cross-border and GB-NI institutional arrangements that may also be helpful in this regard. At present, the concern is that rather than being a hybrid economy, NI is becoming a hokey-cokey: putting its left and right legs in and out and shaking them all about.

(1) <https://www.economicsobservatory.com/how-is-brexiteffecting-northern-irelands-economy>
