



Knowledge Exchange Seminar Series (KESS)

...is a forum that encourages debate on a wide range of research findings, with the overall aim of promoting evidence-based policy and law-making within Northern Ireland



Making sense of Brexit's challenges to Economic Citizenship

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Brexit negotiations as a 'Game of Thrones'



- Managing the process of the United Kingdom (UK) exiting from the European Union (EU) generating huge transactions costs and potential damage to the UK Economy;
- TCs = 749 treaty changes, 12000 product regulations to be re-negotiated; and, 6250 WTO tariff lines for Agri-food to conform to ;
- For Northern Ireland (NI), as well the Republic of Ireland (ROI) is the most complex and challenging that is not understood by UK Government partly due to disinterest.

The Issues



- Brexit Deals as Club Goods;
- Key Impacts upon NI Economy;
- All-Ireland Single Market;
- The Border Paradox for Agri-Business;
- Challenges to Economic Citizenship;
- Special Status Governance for Island of Ireland.

Brexit as a set of Club Goods

- The theory of club goods is derived from the work of James Buchanan, the US economist who developed a theory co-operative membership for access to shared collective goods and services (sometimes known as quasi-public and merit goods).

As more persons are allowed to share in the enjoyment of the facility, of given size, the benefit evaluation that the individual places on the good will, after some point, decline. There may, of course, be both an increasing and a constant range of the total benefit function, but at some point congestion will set in, and his evaluation of the good will fall. (Buchanan, 1963, 12)

Potential Brexit Club Goods

Club Good	Financial Contribution	Impact from EU rules and SEM access	Influence over EU rules
Current EU	0.6% of GDP from UK in 2016 but no separate contribution from NI	Full access to SEM – no tariffs or custom duties. Trade and air route access negotiated at EU level lowering transactions costs for Member State. EU-wide environmental practice. Common agricultural and fisheries policies standardising product quality and market access. Common external tariffs to prevent anti-competitive dumping (e.g. steel)	NI represented through UK on all institutions
European Economic Area (Norway)	Contributes to EU budget equivalent to 0.34% of UK GDP (2016). But does not contribute to Common Agricultural Policy (CAP)	Full access to SEM but EEA agreement does not cover CAP and CFP and customs union and common trade policy Matches EU rules and standards on agriculture and committed to process of liberalising agricultural trade. Some exemptions apply to environmental regulations. Co-operation between Norway and EU in energy security and part of SEM in energy.	Right to consultation but not represented in EU institutions
European Free Trade Area (Switzerland)	No obligation for EFTA members to contribute to EU budget but Switzerland contributes equivalent to 0.11% of UK GDP. To cover costs of participation in various programmes including research	Switzerland's agreement with EU covers movement of persons and access to SEM for a number of sectors. Passporting rights of Swiss Banks operating in EU Member States. Consultative role on management of environment rules and regulations. Not covered by CAP with series of bi-lateral trade agreements on agricultural trade and lower customs duties. Environmental management based upon a range of sectoral agreements	No formal right to be consulted on EU laws and regulations
Free Trade Agreement (Canada)	The Comprehensive Economic and Trade Agreement (CETA) between Canada has been agreed but not ratified but no financial contribution	CETA gives Canada almost complete access to the SEM with the exception of financial and other services. Joint environmental and climate protection but concerns over GM product and carbon heavy fuels that are not included. Up to 94% of agricultural exports from Canada will be tariff free. Tariff free changes to some fisheries product but food safety and labelling missing from agreement	No formal right to influence EU policies
WTO	None	EU is member of WTO with UK having to negotiate separate membership post-Brexit. WTO exporters to EU have to comply with environmental regulations to access SEM. For countries with WTO Most Favoured Nation (MFN) status the average tariff is 5.4% but average agricultural tariff is 12.2%. Complex set of arrangements covering 6526 tariffs including fisheries. No WTO rules in services	No formal powers

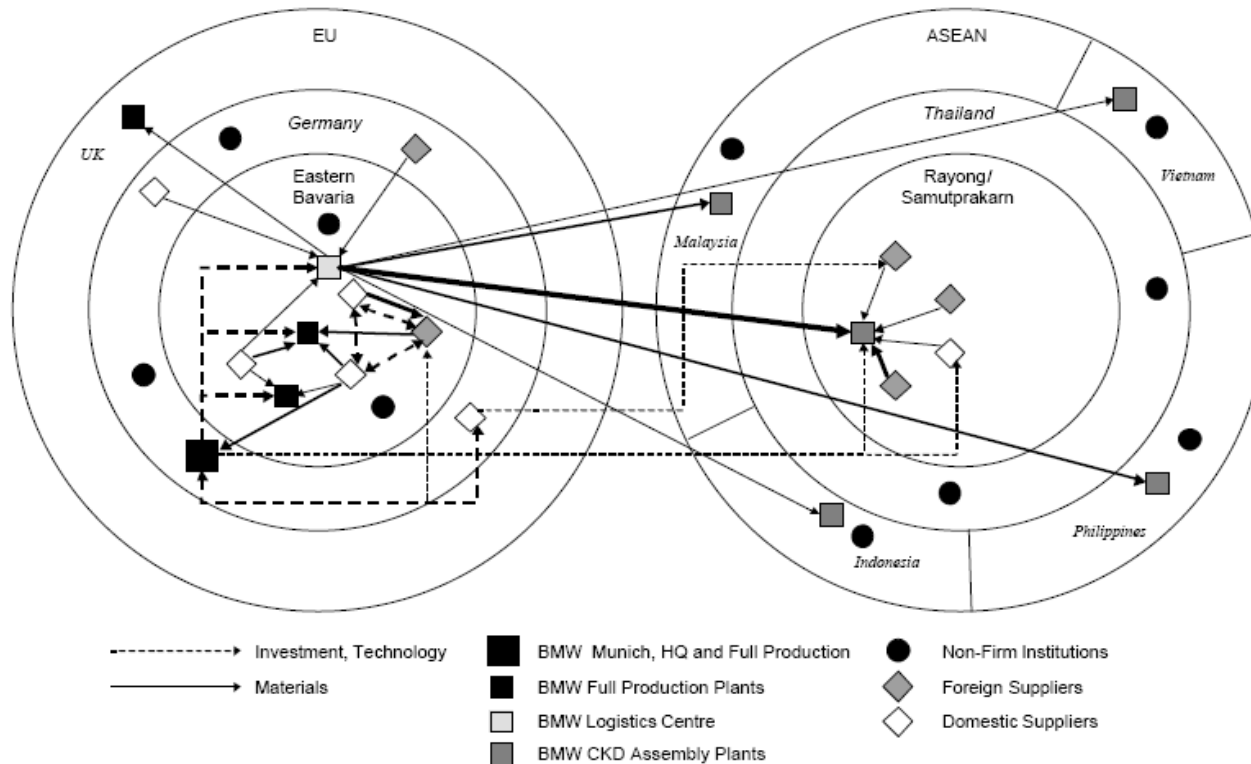
Source: Stennett (2016)



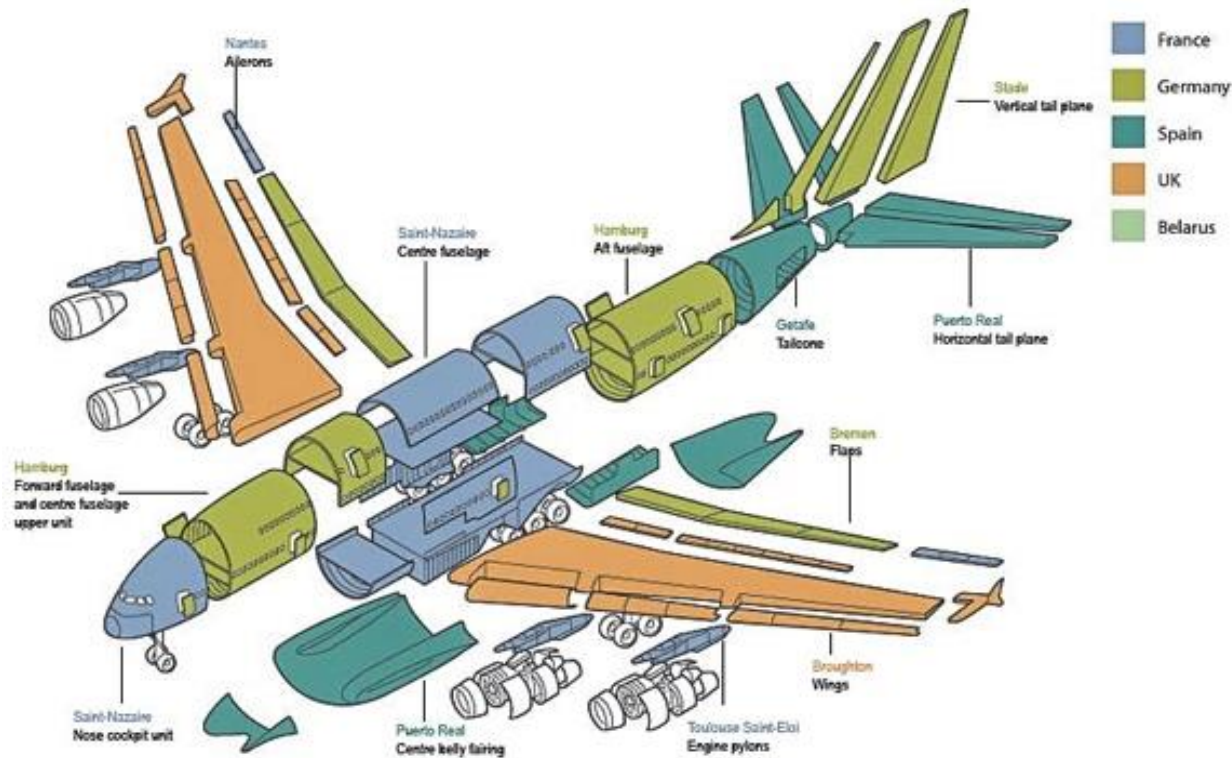
Key NI Impacts Misunderstood

- EU Referendum and US Election demonstrated ignorance by politicians and commentators (on all sides) and about modern economies and trade unchallenged communication to public;
- Economic globalisation first driven by trade, followed by Foreign Direct Investment (FDI);
- FDI enables Global Production Networks (GPNs) and thus Global Value Chains (GVCs);
- Global Supply Chains (GSCs) provide the link between GPNs and GVCs;
- GSCs are now drivers of global trade with 60% of EU Trade being intra-firm.

BMW regionalised Global Production Network



Airbus A380 Supply Chain



Over reliance of FDI in NI

“There has always been a policy aim in Northern Ireland to attract FDI and it is not just about creating jobs for us, this is about creating companies which have high value added, which bring with them good management practice and say for example technology transfer.

It also helps if we attract foreign direct investors to change the overall structure so we are not so dominant with small firms as well, to bring in those larger firms too.

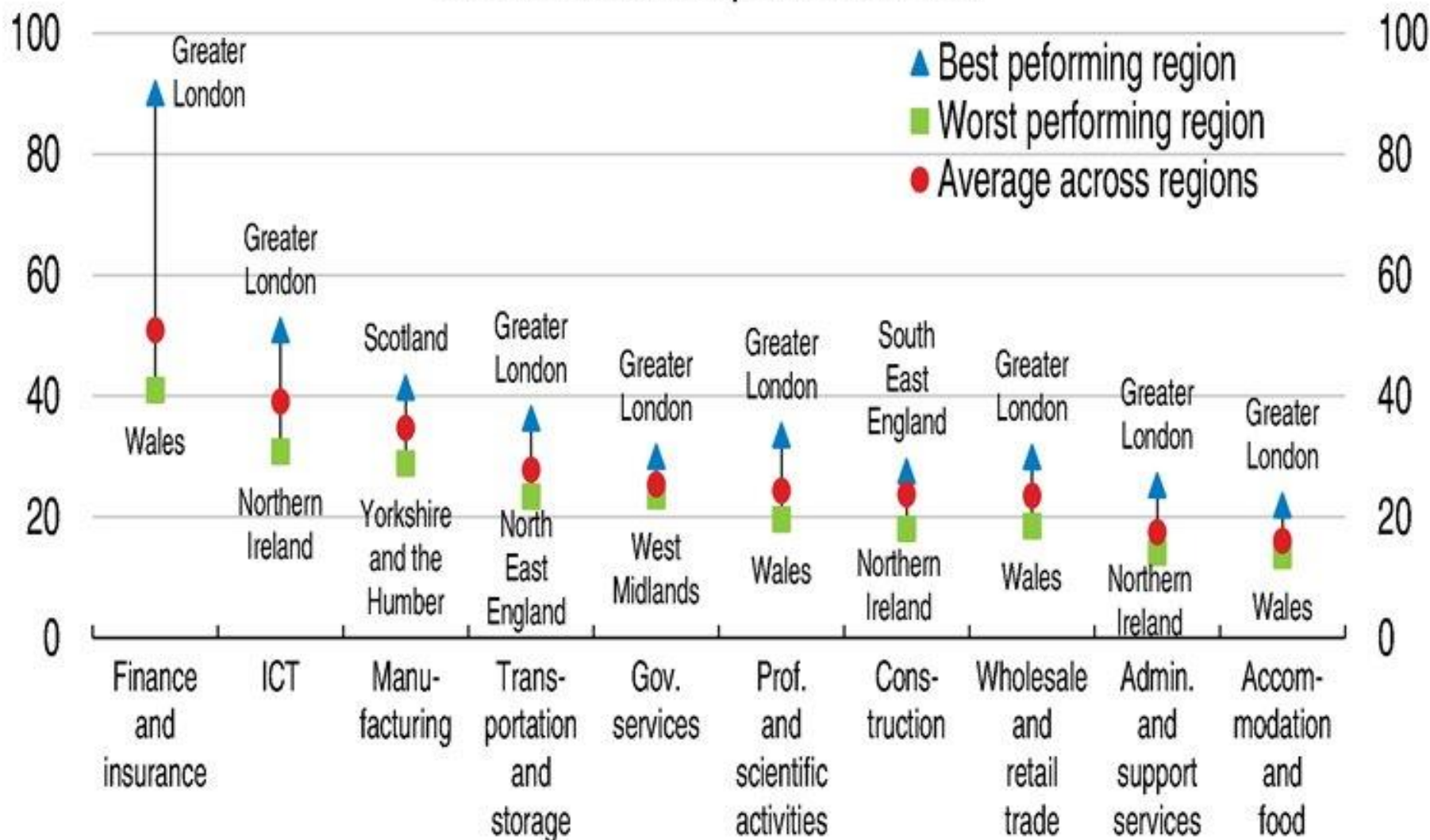
Investors seek stability - and obviously with Brexit, the macro-economic stability will not be there and we do think that will affect FDI. We do fear for FDI and our ability to attract it.”

Angela McGowan Director NI CBI



Labour productivity by sector and region

Gross value added per hour, in GBP

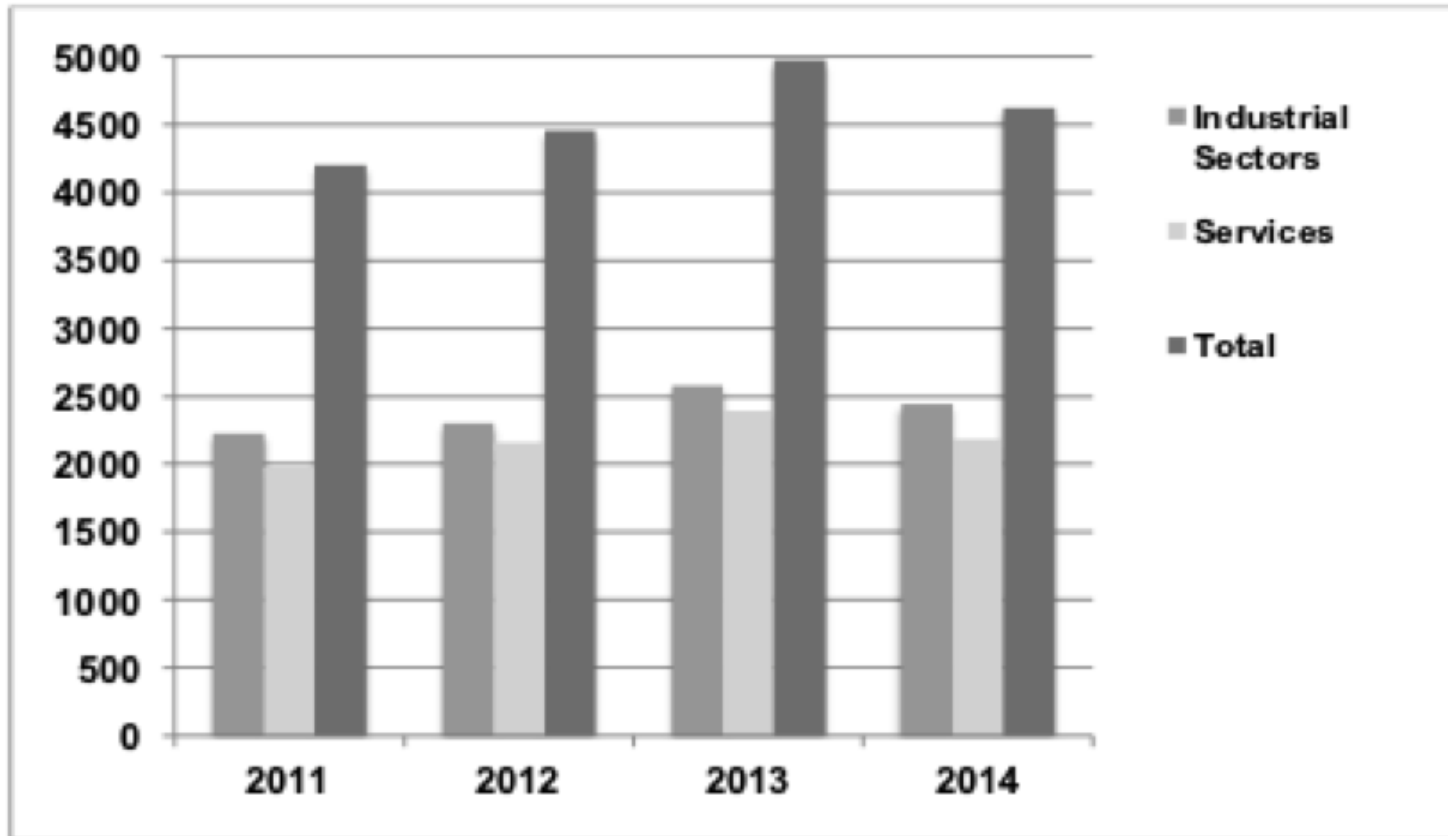


Matrix sectors vulnerable to Brexit

- *Telecommunications & ICT; Life & Health Sciences; Agrifood; Advanced Materials; Advanced Engineering;*
- Narrow export base of NI Economy impacts upon productivity and thus FDI;
- EU accounts for 58% of NI Exports; 35% to ROI, UK accounts for 17% of ROI exports (its largest proportion);
- Post-Brexit loss of EU funding = £500m p.a plus £500m p.a.net loss of Barnett Formula following Corporation Tax devolution (1.8% of tax base within already narrow tax base);
- Exacerbated by estimated loss of 3% of GDP by 2030 due to lower intra-firm trade; cross-border co-operation; and less FDI that continuing uncertainty and large transactions cost may be worse.

All-Ireland Single Market

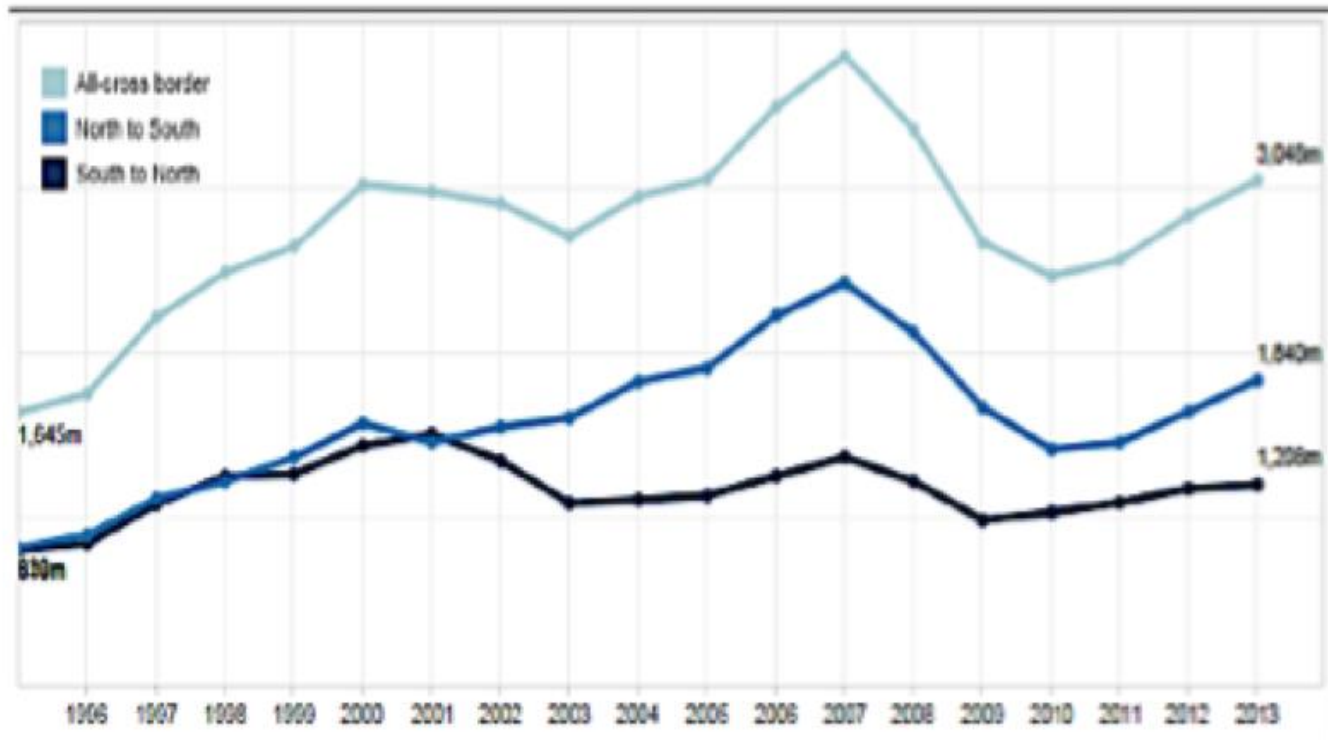
Cross- border trade 2011-14 (£m)



source: InterTrade Ireland (2016)

All-Ireland Trade

Cross- border trade 1995-2013 (€m)



source: InterTrade Ireland (2014)

Post-Brexit Trade Effects

- In 2014, 48.1% of merchandise and 37% of services exports went from UK to EU;
- Rest of EU exports to UK 6.8% and 10.4% respectively;
- Post-Brexit UK loss of exports to EU 9.6% and 7.4% respectively;
- Post-Brexit loss of EU27 exports to 1.36% and 2.1% respectively;
- These numbers do not include intra-firm trade that is important part of supply chains underpinning GVCs;
- Important NI Agrifood sector accounts for 3.5% of Gross Value-Added (GVA) and 6% not including related business and financial services facing 6256 WTO tariff lines to be negotiated;
- Border question crucial because of cross-border GVCs because -

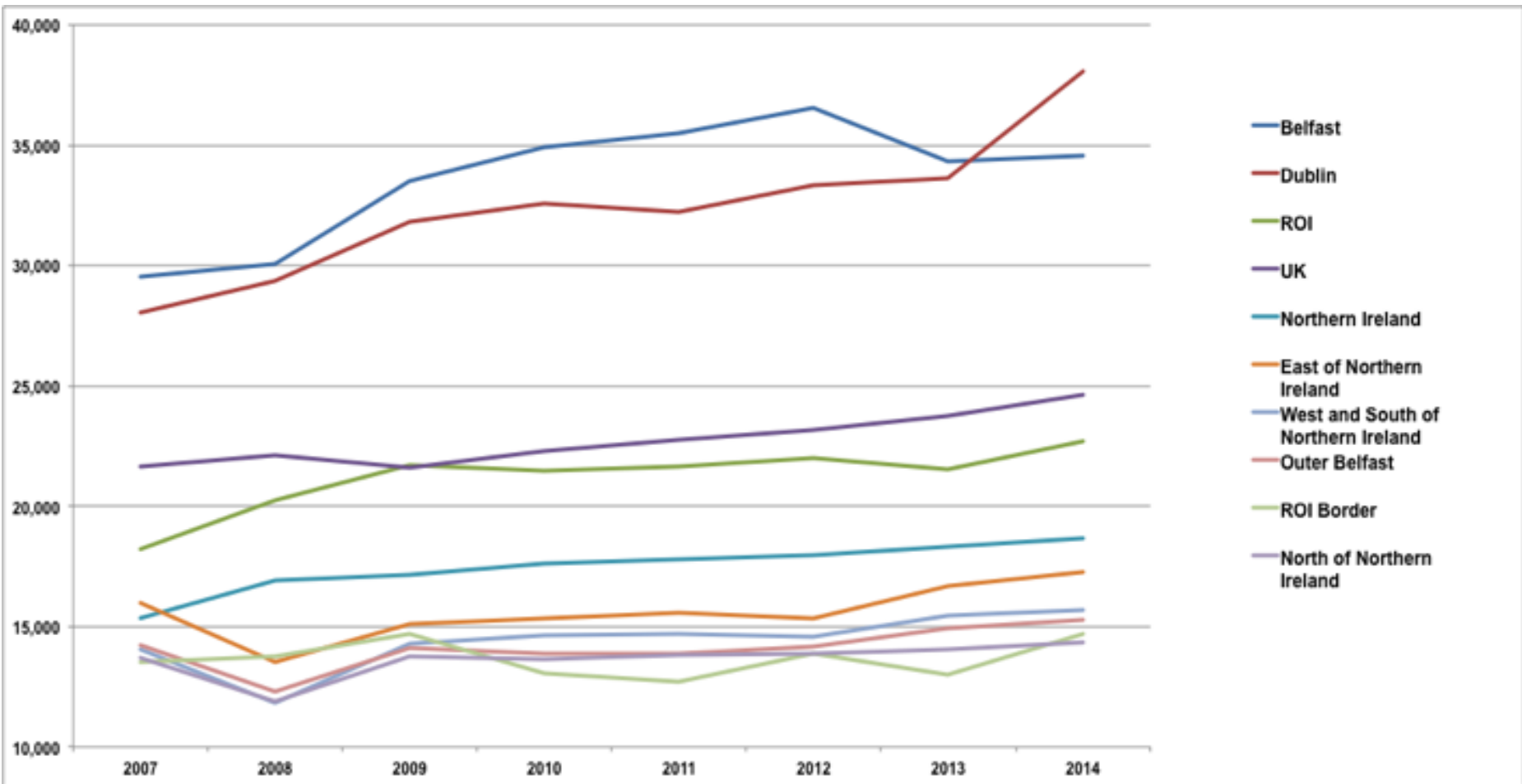
“Irish Cows don’t respect borders”



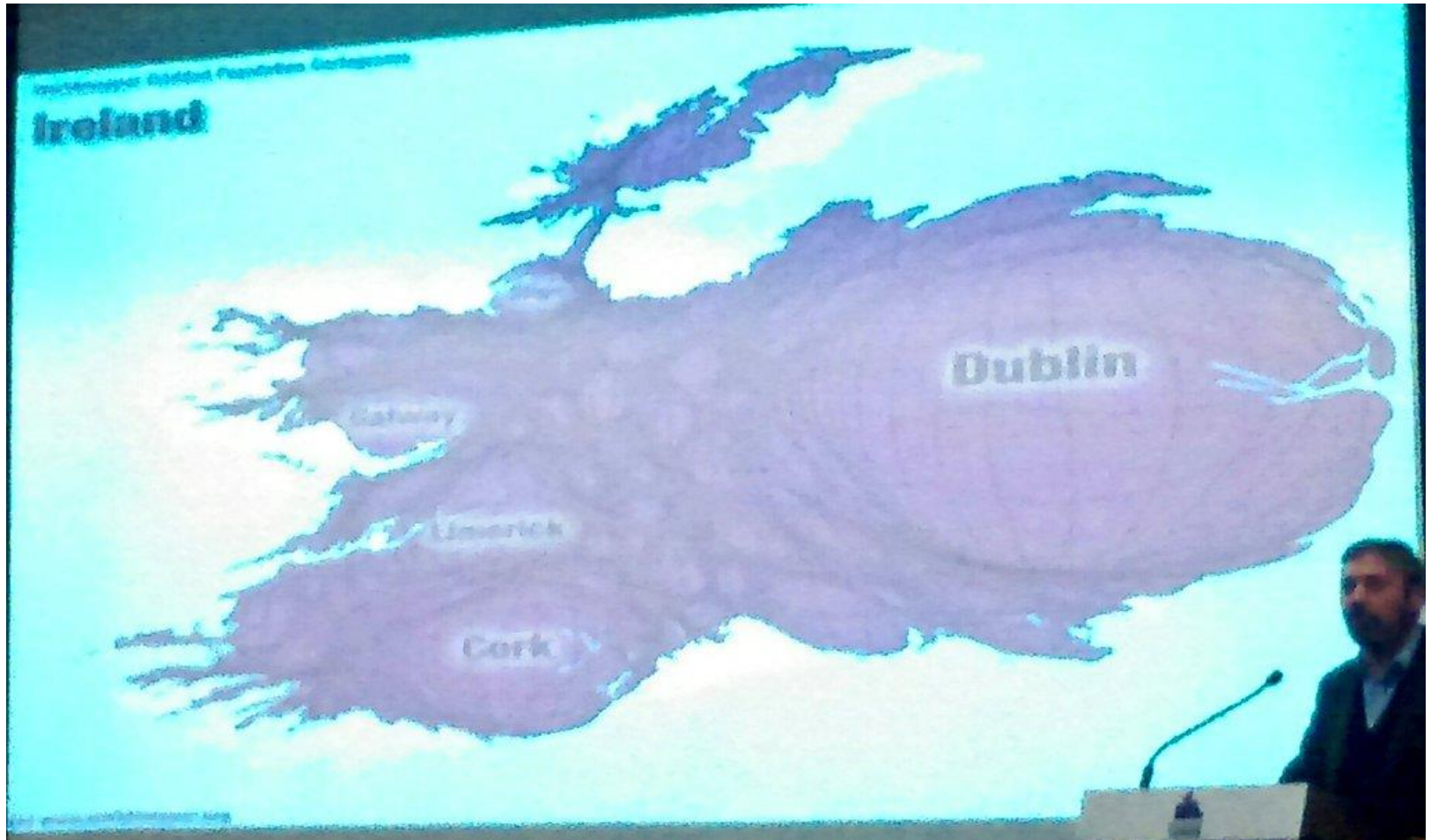
Economic Citizenship and Governance

- *Economic citizenship* is the inclusion of citizens in the allocation, distribution and stabilisation of resources to enhance their socio-economic welfare and well-being in the territories they inhabit and shape.
- *Governance* as the process and practice of attributing public status to intermediary groups between government and civil society (that includes the market) to deliver legitimate and accountable policy outcomes for the interest groups they represent.
- The Agrifood sector is crucial in assessing and investigating in detail the consequences of Brexit. This is a given because of its significant position in respect of trade and FDI in the island of Ireland; income and employment; spillovers into other economic sectors, and, its key position in balancing socio-economic welfare between the rural and urban economy in NI.
- Danger of shift south because of Dublin becoming more global hub for FinTech, business services, airline traffic and possibly aerospace.

Regional Imbalances



And Post-Brexit?



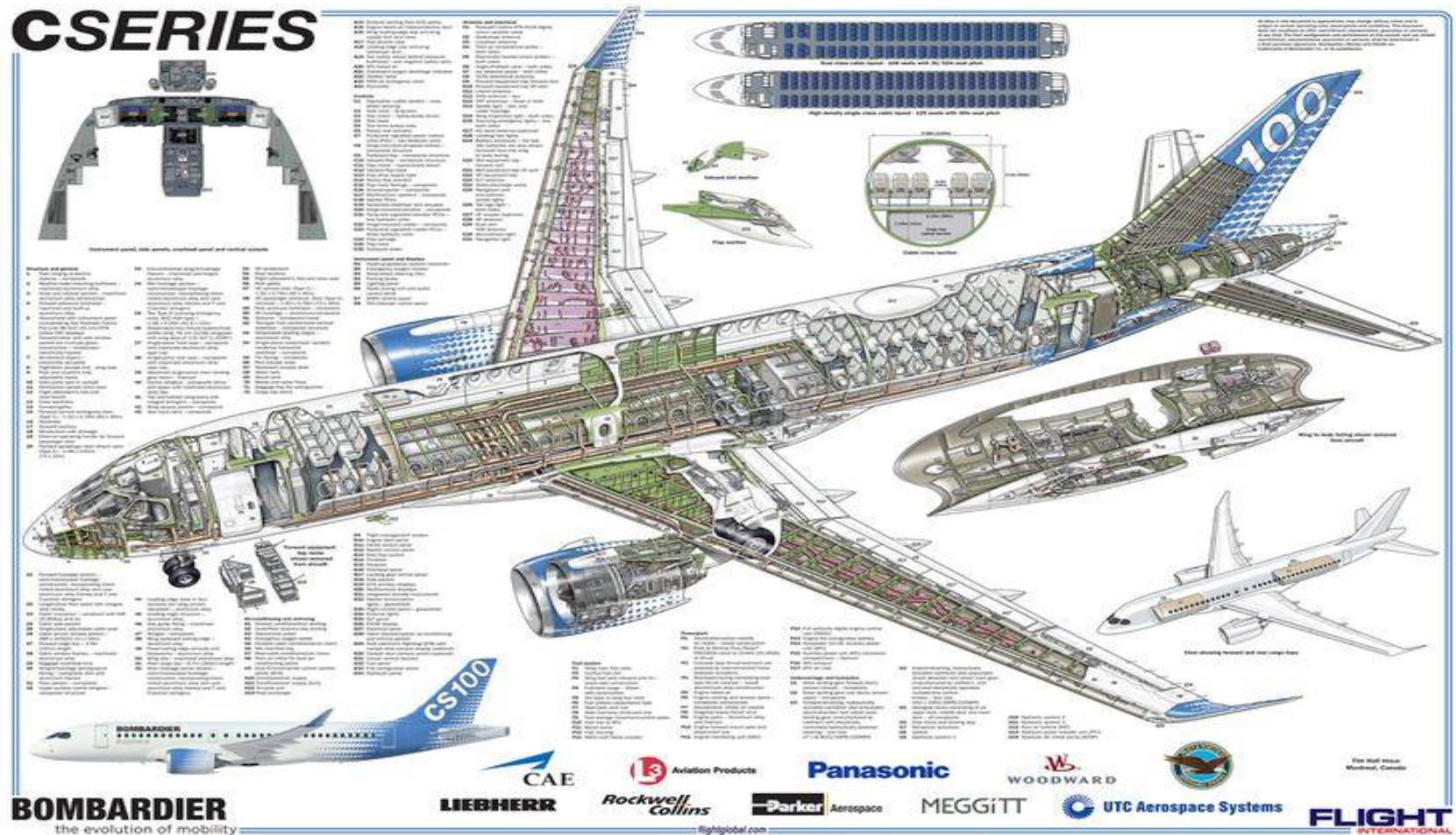
By way of Conclusion

- The economic consequences of Brexit are potentially even more complex in NI case because it shares weaknesses with the UK, that are magnified versions of UK problems unique to the region.
- Whatever kind of Brexit club good is chosen for NI, the Good Friday Agreement still stands as underwriter of economic citizenship and governance in the whole of Ireland;

Without a proper, specific and appropriate settlement for NI, Brexit could break bad for the whole of the UK, in undermining and fracturing the relationship between its economic citizenship and governance, (Budd, 2017:126.)

- Logic extends to rest of Ireland in that without all-Ireland governance solution damage to economic citizenship may be irrevocable;
- BUT political consequences may be unpalatable but ultimate necessary.

Bombardier Farrago as Brexit metaphor





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