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## Ireland and the Economic Impacts of Brexit

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## **Introduction**

The decision of the United Kingdom (UK) to leave the European Union (EU) set a precedent unlike any other. The UK will now be an autonomous player on the world stage. The new precedent set by this important vote has led to uncertainty across the world concerning the consequences for Europe and its interconnected political and economic systems.

One country particularly concerned about the vote is Ireland. The two island neighbors have been connected through politics, economics, and culture for centuries. While both have been economically dependent on each other for most of their history, the future now appears uncertain. The Brexit vote, as it is popularly named, places the relationship of Ireland and the UK in jeopardy, especially since Ireland plans to remain as a member of the EU. These geographical neighbors must determine their post-Brexit relationship moving into the future, and what the Brexit vote means for the economy of Ireland. This paper will examine what Brexit means for the UK and the potential economic impacts of Brexit on Ireland. Of all Eurozone countries, Ireland is expected to see the greatest impact from Brexit—particularly along the Northern Ireland border, in foreign direct investment into Ireland, and regarding trade policy. Lastly, this paper will present potential models that the UK could adopt to mitigate the effects of Brexit and smooth its relationship with Ireland.

## **Historical Background of The EU**

Before we can understand the economic effects of Brexit on Ireland, we must first understand the history behind the EU, between Ireland and the UK, and Brexit. The EU traces its roots to the end of World War II when Western Europe sought to integrate to ensure economic stability and military security. To enhance economic ties, West Germany, France, Italy, Belgium, the Netherlands, and Luxembourg created the European Economic Community (EEC).

The EEC established a common market among its members, reduced trade barriers, and enabled freer movement of goods, services, labor, and capital. The EEC also eliminated policies that inhibited market competition and installed a common agricultural policy and external trade policy. Although the UK and Ireland were not original members of the EEC, the two nations joined sixteen years after its creation in 1973. With membership growing, the EEC members founded the European Monetary System in 1979 to help manage exchange rates across member countries. This expansion of policies and membership pushed the EEC to create the Single European Act (SEA) in 1987. The SEA further enlarged the scope of the EEC and set a timeline for the completion of a common market, which would ease trade between nations and allow easier access to all markets. These open-trade policy expansions eventually led to the signing of the Treaty of Maastricht and the establishment of the European Union.<sup>1</sup>

Further integration in Europe was made possible by the creation of the European Union in 1993. The Maastricht Treaty created the Union and established it as an international organization focused on "...governing [through] common economic, social, and security polices."<sup>2</sup> The Treaty promoted EEC and the EMS goals by "enhance[ing] European political and economic integration by creating a single currency, the euro, a unified foreign and security policy, and common citizenship rights and by advancing cooperation in the areas of immigration, asylum, and judicial affairs."<sup>3</sup> The Maastricht Treaty also streamlined monetary policy across member states and created a common currency and common monetary institutions, including the European Central Bank and the European Monetary Union. This integration across member

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<sup>1</sup> Matthew Gabel, "European Union," *Encyclopedia Britannica*, <https://www.britannica.com/topic/European-Union#toc224465>

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

states and the cohesion of monetary policy enhanced the economic relationship between the UK and Ireland.

### **Historical Background of Ireland and the UK**

The islands of Ireland and Great Britain are only separated by 150 miles. Although both countries now have many positive economic, social, and cultural ties, their history is filled with conflict. The political tensions between Great Britain and Ireland began in the sixteenth century when Great Britain took control of Ireland after the Irish Parliament recognized Henry VIII as King of Ireland. This led to the immigration of many English and Scottish residents to Ireland, displacement of Irish landholders, and tension between the populations. This power shift resulted in wars and conflicts between the populations for centuries to follow. Tempers were further flared with the elimination of the Irish parliament in 1801, reducing the power of the native Irish. Only forty years later, the deadly Irish potato famine forced many surviving Irish to emigrate from Ireland. The latter half of the nineteenth century launched a large movement toward independent Irish rule, but the twentieth century initiated a significant turning point in the fight of Ireland to regain independence.<sup>4</sup>

The contentious relationship between Ireland and the United Kingdom culminated after the First World War. In 1914, the Irish were granted home rule, but it was quickly suspended with the outbreak of the World War. Irish men went to fight for the British crown, but after the war was over, many resumed the fight for independent rule. The Easter Rising of 1916 occurred when “a group of Irish nationalists proclaimed the establishment of the Irish Republic and...staged a rebellion against the British government.”<sup>5</sup> This rebellion was quickly suppressed by British troops and resulted in the death of over two-thousand Irish. The Easter Rising

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<sup>4</sup> Gavin Stamp, “Neighbors across the Sea: A Brief History of Anglo-Irish Relations,” *BBC*, 2014, <http://www.bbc.com/news/uk-politics-26883211>

<sup>5</sup> “Easter Rising,” *History*, 2017, <http://www.history.com/topics/british-history/easter-rising>.

generated public support for Irish independence and started the Anglo-Irish War in 1919. After four years, the Anglo-Irish treaty was signed and created the partition of Northern Ireland and the Irish Free State.<sup>6</sup> Violent conflict continued between the new Free State of Ireland and the UK-controlled Northern Ireland. This period of conflict became known as “The Troubles” and ended with the Good Friday Agreement in 1998. The Agreement “...reaffirmed Northern Ireland’s constitutional status in the UK while also repealing the law by which Ireland was partitioned.”<sup>7</sup> Today, the UK and Ireland have moved beyond these conflicts to become stronger and more connected than ever before.<sup>8</sup>

The historical dynamics between the UK and Ireland provide useful context when examining the economic interconnections and the potential issues that could result from Brexit. The contentious history between these nations illuminates the progress of their political and economic connections. By joining the EU, both nations saw further economic interconnection and the freer flow of goods and people across their borders. The recent British vote to leave the EU leaves this close relationship in a precarious balance.

### **Historical Background: What is Brexit?**

Before we explore the economic implications of Brexit on the Irish economy, it is important to define Brexit. Brexit refers to the United Kingdom Referendum in which the British people elected to leave the EU in 2016.<sup>9</sup> Through this historic vote, the British government invoked Article 50 of the Treaty on the European Union. The UK was required to

...notify the European Council of its intention. In light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement

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<sup>6</sup> Stamp, “Neighbors across the Sea.”

<sup>7</sup> Ibid.

<sup>8</sup> “Easter Rising.”

<sup>9</sup> Alex Hunt and Brian Wheeler, “Brexit: All you Need to Know about the UK Leaving the EU,” *BBC*, December 5, 2017, <http://www.bbc.com/news/uk-politics-32810887>.

with the State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union.<sup>10</sup>

Any state that wishes to leave the EU must negotiate its terms within a two-year period from the formal date of entry into withdrawal and this allotted time cannot be extended unless approved by the European Council.<sup>11</sup> The UK must adhere to these formal procedures to be released from the EU. Currently, Brexit negotiations are under way.

The negotiations between the European Union and the UK have begun, and are focused on the rights of citizens, the amount of money owed to the EU from the UK, and the Northern Ireland border. Both the EU and the UK are concerned about the implications of Brexit for British citizens living and working in the EU as well as EU citizens living and working in the UK. Potential concerns for Northern Ireland include customs enforcement and border controls. Ireland is still a member of the European Union and its border with Northern Ireland, which is part of the UK, makes it a contentious area with respect to the movement of goods, labor, and capital. These issues must be addressed before March 2019, when the UK officially will no longer be a member of the EU. The implications of the UK leaving the EU could potentially cause many difficulties for its neighbor Ireland.

### **The Implications of Brexit on Ireland: Borders and Immigration**

With Brexit talks underway between the UK and the EU, the border issues between Ireland and Northern Ireland could become a forefront discussion as negotiations move forward. How is the UK going to deal with the movement of people and goods across the border? What does it mean for Irish citizens who live, work, or travel to Northern Ireland? With such a

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<sup>10</sup> Eva-Marie Poptcheva, "Article 50 TEU: Withdrawal of a Member State for the EU," *European Parliamentary Research Service*, 2016,

[http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/577971/EPRS\\_BRI\(2016\)577971\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/577971/EPRS_BRI(2016)577971_EN.pdf).

<sup>11</sup> *Ibid.*

turbulent history between Ireland and Northern Ireland, the ability to maintain peace between them should be a top priority.

The European Union has facilitated the free movement of people among member states and has eased the transportation of goods. Citizens within the EU have the same rights and each state is subject to the EU Constitution and regulations. This common standard of law makes moving across member states seamless for all EU citizens. The membership of both states in the EU and partnership in the Good Friday Agreement, which ended the conflicts between the Republic of Ireland and Northern Ireland, has created a nearly invisible border between the two states. Both states have agreed to the Common Travel Area (CTA) to give citizens of Ireland and the UK "...a remarkable degree of migratory freedom between the Republic of Ireland and the UK[,] and the maintenance of the CTA has been a core feature of Ireland's policy on migration."<sup>12</sup> With Brexit, an increased concern arose regarding the subsection of passport checks and the requirement of visas. for people who travel across the border. Passport checks on the Northern Ireland Border would create "...a reduction in the ease of movement between the Republic of Ireland and Britain and the removal of the automatic right to work in Britain for Irish people."<sup>13</sup> At this point in the Brexit negotiations, the "...EU and the British and Irish governments are committed to the continuation of an invisible border,"<sup>14</sup> making the institution of passport checks unlikely. Overall, the short-term travel of people between the two states is likely to continue to maintain its openness and create minor inconveniences on citizens.

Short-term movements will remain mostly uninterrupted between the two states, but we must also consider its effects on the labor force and those who work across borders. There

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<sup>12</sup> Alan Barrett, et al., "Scoping the Possible Economic Implications of Brexit on Ireland," *Economic and Social Research Institute*, November, retrieved from Pepperdine University Library.

<sup>13</sup> Ibid.

<sup>14</sup> Lisa O'Carroll, "How does the Irish Border Affect the Brexit Talks?" *The Guardian*, June 21, 2017, <https://www.theguardian.com/politics/2017/jun/21/how-does-the-irish-border-affect-the-brexit-talks>

continues to be “large migratory flows between Ireland and the UK” due to economic conditions,<sup>15</sup> as was seen during the recession in the late 2000’s, when immigration to the UK doubled.<sup>16</sup> With this number of people living and working in different countries, Brexit will inevitably impact unemployment and wage rates. Studies have shown that UK and Irish unemployment are highly interconnected, and this suggests “. . . that the closure of the UK labour market for immigrants from Ireland would tend to put upward pressure on unemployment rates and possibly downward pressure on wage rates if the unemployed competed for jobs in Ireland.”<sup>17</sup> Although the results predicted only a potential one percent drop in unemployment, the largest and most adverse potential impacts come in the form of wages, with low skill workers experiencing decreases as much as 3.9%, and 5% for skilled-labor.<sup>18</sup> These potential drops in wages could adversely affect the population and economy of Ireland. Even though employment rates would only drop slightly, the decrease in wages negatively would affect the Irish population’s purchasing power and prohibits many from contributing as much to the economy. This could negatively affect Ireland’s overall economic performance.

### **The Implications of Brexit on Ireland: Foreign-Direct Investment**

Brexit will redirect Foreign Direct Investment (FDI) from the UK to Ireland. Currently, the UK enjoys unfettered access to the EU single market, which helps to attract inward FDI. In fact, “the UK’s inward FDI stock is the largest in Europe and the second in the world after the US”, amounting to \$1,662.9 billion in 2014.<sup>19</sup> Studies have shown “EU membership has been a key factor in attracting FDI to the UK from outside as well as from inside the EU.”<sup>20</sup> However,

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<sup>15</sup> Barrett, “Scoping the Possible Economic Implications.”

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.



Brexit is projected to have negative impacts on the UK's FDI. One study showed that a proportion of "... foreign firms that invested in the UK might reconsider their location decision following an exit from the EU and...those currently considering locating in the UK may be discouraged from doing so given the uncertainty."<sup>21</sup> With the EU and UK still involved in the negotiating process, investors are becoming nervous to take risks when future access to the EU market is still an unknown. This could benefit Ireland, who could experience some relocation of FDI from the UK post-Brexit.<sup>22</sup> Although Brexit could result in an outflow of FDI from the UK and a potential inflow to Ireland, there are still other challenges Ireland could face in gaining more FDI, including experiencing losses rather than gains.

Brexit could see investments leaving the UK and instead entering Ireland. Without access to the EU single market, the UK could become a less attractive location for FDI.<sup>23</sup> Ireland is a close geographic neighbor of the UK, but is a member of the EU, giving firms easy access to both markets. There could potentially be an increase in "the stock of total FDI in Ireland by 2%," totaling \$6.6 billion.<sup>24</sup> Ireland could also experience a positive effect from Brexit in the form of total investments. However, the exit of the UK could result in FDI losses for Ireland or at least decrease the positive impacts by FDI flows from the UK.

A loss of FDI in the UK could create losses for Ireland, as well. This loss of FDI in the UK "...would affect negatively the UK's productivity growth as well as its long-term potential growth. Lower potential growth in the UK is likely to affect negatively economic growth in Ireland."<sup>25</sup> Although Ireland is projected to see an increase in FDI, it may not be as large as

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<sup>21</sup> Edgar Morgenroth, "Economic Consequences for Ireland," *The Institute of International and European Affairs*, (February 2015): 146-155, <https://www.esri.ie/pubs/CB201515.pdf>.

<sup>22</sup> Ibid.

<sup>23</sup> Barrett, "Scoping the Possible Economic Implications."

<sup>24</sup> Morgenroth, "Economic Consequences for Ireland."

<sup>25</sup> Barrett, "Scoping the Possible Economic Implications."

economic studies estimate. Divestment for the UK could be very costly for well-entrenched companies and those who face large sunk and fixed costs.<sup>26</sup> Moving to Ireland could accrue further losses and force companies to stay in the UK.

The UK is considering changes to their corporate tax rate to become more competitive. This could help keep investment in the UK, rather than moving outward. Currently, the UK's corporate tax rate is set at twenty percent, but the government has announced decreases to nineteen percent expected in 2018 and to eighteen percent by 2020.<sup>27</sup> Reducing this tax rate "is likely to attract more FDI to the UK which would impact positively on the UK's productivity growth"<sup>28</sup> Lower corporate tax rates make the UK a more cost-effective location compared to other European nations which have higher rates. This could cause considerable competition with Ireland for attracting new FDI. Although the attractiveness of membership in the single market would be an advantage, the potential changes to taxes and the costs already inputted into the UK market have maintained the nation as an attractive investment location.

FDI in the UK and Ireland will change with Brexit, but only by a small margin. Investment shifts will depend on the amount of access the UK will have to the EU single market. Even at a lower corporate tax rate, "reduced access to the EU Single Market would impact negatively on the UK's attractiveness to new FDI projects," the UK continues to boast a large market and hub in London.<sup>29</sup> Although Ireland could potentially see increases to its FDI with Brexit, the gains would be marginal at best.

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<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

### **The Implications of Brexit on Ireland: Trade Policy**

Ireland and the UK are major neighboring trade partners. As EU members, there is seamless movement of goods and people across borders. EU Membership has increased UK trade flows by twenty percent or more.<sup>30</sup> Currently, thirteen percent of Irish exports go to the UK and twenty-four percent of Irish imports come from the UK.<sup>31</sup> The potential changes to trade and customs policies following the Brexit negotiations could negatively impact Ireland-UK trade and could affect some of its largest UK-exporting sectors, such as agriculture.

Changes in trade policy will be determined by the negotiations held between the UK and the EU and will affect Irish trade with the UK. With these new proposals to trade policy, it is estimated that the UK could lose between 1.1-3.1% of real GDP, but accounting for lower productivity growth, those losses could reach up to 6.3-9.5%.<sup>32</sup> Due to losses in the UK, Ireland could see per capita GDP losses of 0.8-2.7% due to trade losses with the UK.<sup>33</sup> In addition to GDP losses, “Brexit is likely to significantly reduce bilateral trade flows between Ireland and the UK [and] the impact could be 20% or more.”<sup>34</sup> Depending on the pending negotiations and the potential trade agreements that could surface, the Brexit is projected to negatively impact Ireland’s trade.

These changes in trade policy due to Brexit will be dictated by the EU negotiations and the UK’s access to the EU single market. Without entry to the single market, the UK would be forced to follow WTO rules, including the Most Favored Nation (MFN) Clause.<sup>35</sup> The UK could

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<sup>30</sup> Conall Mac Coille, “The Economic Impact of Brexit on Ireland,” *Davy Research*, March 31, 2016, retrieved from Pepperdine University Library.

<sup>31</sup> “Ireland Exports, Imports, and Trade Partners,” *OECD*, <https://atlas.media.mit.edu/en/profile/country/irl/>

<sup>32</sup> Barrett, “Scoping the Possible Economic Implications.”

<sup>33</sup> *Ibid.*

<sup>34</sup> *Ibid.*

<sup>35</sup> Mac Coille, “The Economic Impact.”

face EU tariffs, which could increase the price of imports.<sup>36</sup> Ireland is already entrenched in supply chain linkages with the UK and could face difficulty in the short-run to shift its market from imported goods to locally produced goods. This difficulty is due to its small country size.<sup>37</sup> Ireland would suffer from increased prices on imports from the UK post-Brexit in this scenario.<sup>38</sup> Faced with the possibility of tariffs and additional trade barriers, as well as integrated trade and supply chains, Ireland could see major losses to trade with Brexit.

### **The Implications of Brexit on Ireland: Non-Tariff Barriers**

Ireland could encounter major changes to trade, especially if instigated by non-tariff barriers, such as customs, between the EU and the UK. Goods moving between the UK and Ireland could be subject to new customs checks on either side of the border, which are required by EU law for Ireland.<sup>39</sup> Since the UK would no longer be part of the EU, the nation could add additional customs and border controls, such as physical checks of goods crossing the border or documentation for livestock. Adding customs or other border controls could add 2-4% to the cost of trade between the UK and Ireland.<sup>40</sup> These new controls would mostly affect industry in Northern Ireland and Ireland, where many products cross the border for production.<sup>41</sup> For example, Guinness, one of Ireland's most well-known exports, "...is made at the St. James's gate Brewery in Dublin, [then]...driven 90 miles east to Belfast, where it is canned and then sent back to Dublin port for onward distribution."<sup>42</sup> While there are potential proposed solutions, including electronic customs checks, it is still uncertain if these methods could be implemented.<sup>43</sup> The

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<sup>36</sup> Barrett, "Scoping the Possible Economic Implications."

<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

<sup>39</sup> O'Carroll, "How Does the Irish Border Affect the Brexit Talks?"

<sup>40</sup> Mac Coille, "The Economic Impact."

<sup>41</sup> O'Carroll, "How Does the Irish Border Affect the Brexit Talks?"

<sup>42</sup> Ibid.

<sup>43</sup> Ibid.

transfer of products across the borders could accrue large costs with the implementation of customs and/or border checks by the UK in the wake of Brexit.

### **The Implications of Brexit on Ireland: Case of Irish Agriculture Sector**

Agriculture is a sector that could suffer greatly following Brexit negotiations and could experience the largest tariffs and trade barriers, depending on trade agreements. In terms of agriculture, Ireland exports 40% of total Agri-food and 60% of prepared consumer food (PCF) to the UK, as of 2016.<sup>44</sup> Ireland exports 49% of all beef, 78% of forestry, 22% of dairy, and 86% of fruits and vegetables to the UK.<sup>45</sup> Following Brexit, the UK would be able to add tariffs and trade barriers to EU agricultural products. This could “remove trade barriers from what are now third countries,” which would lead to an increase in competition for Irish exports and could push prices down.<sup>46</sup> Outside the jurisdiction of the EU, the UK could negotiate other trade treaties, but it is not possible to exempt Irish trade, per EU treaties, including Irish products that go through cross-border production.<sup>47</sup> Irish agriculture, similar to other sectors, could potentially experience negative impacts from Brexit in the form of possible trade barriers and external agreements.

### **Potential Solutions**

With Brexit looming and the uncertainty as to what the economic implications will be, many have tried to model potential agreements and their impacts. According to one study, there are three plausible scenarios for the UK’s exit from the EU: the Norway model, the Swiss Model,

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<sup>44</sup> Donnelly, Margaret. (2017). “UK remains Ireland’s top trading partner, despite 6pc drop in exports”. Farm Ireland, July 27, 2017. Retrieved from: <https://www.independent.ie/business/farming/agri-business/uk-remains-irelands-top-trading-partner-despite-6pc-drop-in-exports-35973657.html>

<sup>45</sup> Ibid.

<sup>46</sup> Barrett, “Scoping the Possible Economic Implications.”

<sup>47</sup> Mac Coille, “The Economic Impact.”

and the WTO Model.<sup>48</sup> Norway and Switzerland both have special status with the EU and could be possible options for the UK to adopt as they negotiate leaving the EU.

Norway has a specific arrangement with the EU which gives it a special status without full membership. If the UK followed the Norway Model, it would allow the UK to have membership in the European Economic Area (EEA), which is “an extension of the EU’s internal market which is made up of the 28 member states and members of the European Free Trade Association (EFTA).”<sup>49</sup> This arrangement would give the UK “access ... to selected EU programmes in exchange for a financial contribution, but without the additional burdens of being a full European Union member”<sup>50</sup>. It would also allow for the freer movement of people across the Northern Ireland border<sup>51</sup> (. Although under the Norway option, countries are required to follow EU legislation, “[they] do not get to vote on the rules or take part in the decision-making process.”<sup>52</sup> This could pose an issue for the UK as an advantage of leaving the EU is the ability to dictate nation-specific rules. However, access to the single market could lower the UK’s projected losses from Brexit, including in the areas of trade and FDI. Maintaining access to the EU single market could benefit its trade relationship with Ireland and decrease the potential losses across country lines. In addition, continuing to uphold EU laws and regulations would make the movement of goods, services, and people easier between the UK and Ireland. This could eliminate the potential issues at the borders and difficulties with trade. Maintenance of EU regulations would also benefit the Irish agriculture sector and prevent losses. This system seamlessly establishes a relationship between the UK and Ireland as well as the UK and the EU.

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<sup>48</sup> Adele Bergin, et al., “Modeling the Medium to Long Term Potential Macroeconomic Impact of Brexit on Ireland,” *Economic and Social Research Institute*, working paper, no. 48, (November 2016), retrieved from Pepperdine University Library.

<sup>49</sup> Jon Henley, “Can the UK Adopt the ‘Norway Model’ as its Brexit Solution?” *The Guardian*, December 1, 2016. <https://www.theguardian.com/politics/2016/dec/01/can-the-uk-adopt-the-norway-model-as-its-brex-it-solution>

<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

Although the UK would be forced to uphold, and not influence the creation of EU law, the economic benefits could outweigh the costs.

The Swiss model, though similar to the Norway model, has more specific requirements. Switzerland and its relationship to the EU is “governed through a series of bilateral agreements where Switzerland has agreed to take over certain aspects of EU legislation in exchange for accessing part of the EU’s single market.”<sup>53</sup> Switzerland’s agreements include provisions for “free movement of persons, technical trade barriers, public procurement, agriculture and air and land transport.”<sup>54</sup> In the Swiss model, there is also no free trade in services.<sup>55</sup> This model of bilateral trade agreements could benefit the UK with free movement of people, but the technical trade barriers and the lack of free trade of services might also hinder trade and FDI in the UK. Those additional costs and barriers would make the UK less competitive against other European nations and could add to their trade costs. The potential losses in the UK could then turn into trade losses for Ireland as well. However, if trade and investment become more difficult or expensive in the UK, Ireland could adversely see positive growth in terms of trade and investment since they don’t have such barriers. As in the Norway model, the UK might decide against subjection to EU rules, but having access to the single market could be advantageous. Ireland could benefit with the UK’s access to the single market and the free movement of people, but there are still potential losses which heavily depend on the terms negotiated.

Lastly, the WTO model provides the most flexibility to the UK but could create the highest losses for the economy. Under the WTO model, the UK would only be subject to WTO

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<sup>53</sup> “Countries and Regions: Switzerland,” *European Commission*, October 26, 2017, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/switzerland/>

<sup>54</sup> *Ibid.*

<sup>55</sup> Bergin, “Modeling the Medium.”

rules and could exercise “its rights under the Most Favored Nation (MFN) clause of the WTO.”<sup>56</sup> This would allow the UK to negotiate other trade treaties, impose tariffs along the MFN clause, and arrange other trade regulations that fall in line with WTO rules. This would mostly impact the UK economy since trade barriers with the EU would limit access to the open market, but it would also negatively impact the Irish economy. With lone support of the WTO, the UK could impose trade barriers to Irish products and negotiate treaties with other countries to lower product prices. These would have profoundly negative impacts on the Irish economy, especially in the short run, because opportunities to find other locations for their exports and imports might not be possible. The Irish agricultural sector could also see major losses with new regulations and barriers to trade by the UK. With the ability to negotiate new trade agreements, the UK could outline better terms outside the UK. Ireland could see larger costs to continue agricultural trade with the UK and attempts at reaching a new market. The short run effect could see the most losses as Ireland would be forced to continue trade with UK as it looks for more cost-effective markets. The WTO model would give the UK the flexibility to negotiate better trade deals outside the EU but could leave both economies with considerable losses.

### **Conclusion**

It is clear that the UK’s departure from the EU could have profound effects on the Irish economy. Potential changes to the borders, flow of people, foreign direct investment, and trade policies could create a decline in the British and the Irish economies. However, the extent of the decline remains to be determined. Although there are projections to the depth and scope of change for Ireland, the true outcome is yet to be seen. The severity of these economic impacts, whether negative or positive, will depend on the current negotiations taking place between the

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<sup>56</sup> Bergin, “Modeling the Medium.”



UK and the EU. Until a finalized agreement is reached on the connectedness of the UK and the EU, Ireland must wait to see how their economy will be impacted.

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