Brexit: analysis of the socio-economic impact on the future of UK-Ireland relations

Brexit: análise do impacto socioeconômico no futuro das relações entre o Reino Unido e a irlanda

DOI: 10.34140/bjbv6n1-002

Recebimento dos originais: 05/12/2023
Aceitação para publicação: 04/01/2024

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ABSTRACT
This paper discusses the outcomes of the debate over the status of the Irish border during negotiations for the United Kingdom’s withdrawal from the European Union (“Brexit”), aiming to measure its socioeconomic impact after the creation of a new external border. To this end, we collect and compare data on the trade of goods and services between the UK and the Republic of Ireland, foreign direct investment (FDI), gross domestic product growth, and unemployment rates for the 2016-2019 period, during which London and Brussels negotiated the Withdrawal Agreement. Special attention is given to the North-South interaction in the island of Ireland since its border was one of the most problematic issues when the new UK-EU trade deal was being crafted. Although the exact long-term implications were not completely clear in the chosen period for this analysis, the evidence found suggests that the FDI in the UK is the most negatively impacted indicator, due to the relevance of the presence of EU investors in the country before Brexit, while other variables have shown nearly no relevant fluctuations to support the
hypothesis that a change on the Irish border’s status would negatively impact on the UK-Ireland economic relations on the long term.

Keywords: Ireland, border, United Kingdom, European Union, international trade.

RESUMO
Este artigo discute os resultados do debate sobre o status da fronteira irlandesa durante as negociações para a saída do Reino Unido da União Europeia (“Brexit”), com o objetivo de medir seu impacto socioeconômico após a criação de uma nova fronteira externa. Para isso, coletamos e comparamos dados sobre o comércio de bens e serviços entre o Reino Unido e a República da Irlanda, investimento estrangeiro direto (IED), crescimento do produto interno bruto e taxas de desemprego para o período de 2016-2019, durante o qual Londres e Bruxelas negociaram o Acordo de Retirada. É dada atenção especial à interação Norte-Sul na ilha da Irlanda, pois sua fronteira foi uma das questões mais problemáticas quando o novo acordo comercial entre o Reino Unido e a UE estava sendo elaborado. Embora as implicações exatas de longo prazo não estivessem completamente claras no período escolhido para esta análise, as evidências encontradas sugerem que o IED no Reino Unido é o indicador mais afetado negativamente, devido à relevância da presença de investidores da UE no país antes do Brexit, enquanto outras variáveis quase não mostraram flutuações relevantes para apoiar a hipótese de que uma mudança no status da fronteira irlandesa teria um impacto negativo nas relações econômicas entre o Reino Unido e a Irlanda no longo prazo.

Palavras-chave: Irlanda, fronteira, Reino Unido, União Europeia, comércio internacional.

1 INTRODUCTION
On June 23rd, 2016, a referendum was held to determine if the United Kingdom (UK) should leave the European Union (EU). It gave voice to an even older debate on British participation in European integration, which, previously to the Referendum, pointed to an increasingly lack of cultural affinity with the bloc and economical concerns over the UK’s membership, in issues such as immigration and the Single Market (Henderson et al., 2016).

The visible division of the vote – 53.4% in England and 52.5% in Wales for the Leave option, against 55.8% in Northern Ireland and 62% in Scotland for Remain - would later lead to the greatest challenges within the crafting of a withdrawal agreement. After three failed attempts, two general elections and a change of government, the accord was approved by the UK Parliament and signed by Prime Minister Boris Johnson on January 23rd, 2020. It ended over three years of negotiations, which raised serious concerns over the effects of Brexit for the UK, as well as reignited old animosities among its constituent countries (British Broadcasting Corporation [BBC], 2016; Fella, 2020).

The debate over the border between Northern Ireland and the Republic of Ireland grew to be one of the key issues within negotiations. In 1998, the Belfast Agreement ended 25 years of armed conflict between nationalists and unionists in the island. The open border is one of the fundamental pillars of this peace treaty, not only for allowing free movement of people, goods, and services, but also for paving the way for greater cooperation, aiding in overcoming grievances that previously divided the Irish society. However, it was conceived under the assumption that both sides would remain in the EU, whose rules on
trade and movement reinforced conditions for closer ties. Brexit was set to turn this into an external border, which could no longer be completely open and regulations-free. At least, not without alternative prevention mechanisms (Kirby, 2019). This assumption has immediately generated political and economic concerns over Ireland’s future.

Political, first, because of the effects the imposition of a hard border could have on the island’s stability. The virtual lack of physical barriers presented to both unionists and nationalists a series of advantages, due to EU subsidies and the possibility to use the bloc as a new foreign policy platform. Consequently, the border became a less relevant proxy for national and cultural identity (Stevenson, 2017). Reemploying regulations could be seen as a betrayal of the promises made in 1998 and lead to a new armed conflict (Kirby, 2019). Second, it raises questions on the future status of Northern Ireland. According to the Belfast Agreement, its population could vote to be reunited to the Republic of Ireland. Irish nationalists have frequently pointed this as the solution to the border issue. However, it would also affect the current integrity of the UK, sparking opposition from London and Irish unionists (Ferguson, 2019).

Economically, the gains experienced by the lack of a physical border were significantly trade-related. The Republic of Ireland has benefited from its participation in the Single Market and has grown to be the Northern Irish exports’ main destination after the island of Great Britain (Northern Ireland Statistics and Research Agency [NISRA], 2019). Similarly, the UK received in 2019 16.4% of the Irish exports, and provided 18.8% of its imports (Sullivan, 2019).

Different outcomes have been considered to minimize the economic impact of Brexit, ranging from the crafting of a comprehensive cooperation agreement to regulation under the rules of the World Trade Organization (WTO). Nevertheless, the practical application of the terms presented by the EU-UK Trade and Cooperation Agreement, approved in late 2020, is yet to determine the nature and scale of the impact of Brexit on the British and Irish economies.

That being considered, this paper’s aims first to identify if and how the UK-Ireland economic relations were affected by the withdrawal negotiations between London and Brussels, considering their proximity and the unique situation of the Irish border. The second goal is to discuss how the aftermath of Brexit may affect the future of these relations, considering the close ties between both economies, the compromises made in previous international treaties, and the solutions proposed by the 2020 Withdrawal Agreement.

2 THEORETICAL FRAMEWORK

Since the 2016 Referendum, the mainstream of British Economics professionals was unconvinced that Brexit would produce overall net benefits, considering it failed to promote deregulation and lower transaction costs. In fact, the opposite has been the case, with trading costs rising both for the UK and for
its EU partners (Brownlow & Budd, 2019).

Belke and Gros (2017) state that the trade in goods and services, as well as the level of foreign domestic investment (FDI), summarize the main cost of Brexit for both the UK and the EU. Both pessimistic and optimistic scenarios suggest that this impact will be bigger for the UK (0.13% to 0.41% of its GDP annually until 2030) when compared to the bloc (0.008% to 0.044% of its GDP, for the same period). Therefore, according to this theory, Brexit is to affect the British and Irish economic outputs, but since it is taking the hit alone, the UK is to face more losses (Belke & Gros, 2017).

For the Republic of Ireland specifically, analysts have also found common ground in assuming that its output is the main source of concern, due to the obstacles the new external border can provide for its trade with the UK, an economy to which Dublin is highly exposed. Bergin et al. (2017) reinforce this conclusion by applying the COSMO method, a structural econometric model designed for the Irish economy, used for medium-term economic projections and policy analysis. The conclusions suggested that a decrease in the Irish industrial output was to be expected regardless of a soft or a hard Brexit. This decrease was expected to be of 2.3% in the case of the UK remaining in the European Economic Area (EEA), and of 3.8% in the extreme scenario of trade regulated by the World Trade Organization (WTO) (Bergin et al., 2017).

As for Northern Ireland, the challenges of Brexit are also fundamentally related to investment levels and foreign trade, but also go beyond. McCrudden et al. (2017) defend that a harder withdrawal from the EU had the potential to disrupt cross-border supply and production-chains. With a territory physically detached from Great Britain, the cooperation with the Republic of Ireland has grown to be more intense and lucrative than ever thanks to the lack of border checks and controls. In 2019, Ireland was the destination of 34.8% of all its exports, whereas for the UK it did not surpass 5.5% (NISRA, 2020; Ward, 2020). Therefore, based on this interpretation, Northern Ireland will not only have less demands for its products, but a possible disruption of the flow of goods and services from the South could paralyze its chain productions (McCrudden et al., 2017). This paper takes these interpretations as starting points, focusing on the impact of Brexit on foreign trade of goods and services and investments for the UK and the EU. Specifically for the island of Ireland, possible negative economic consequences do not seem to have been considered, which puts its internal market in harm’s way.

3 METHODOLOGY

Considering the goals proposed in the introduction of this article, we propose to conduct a qualitative and quantitative analysis of a set of indicators that could be more directly affected by a change on the status of the Irish border, drawing conclusions that enable a discussion about the extent of the economic impact caused by this new arrangement.
The qualitative portion is constituted by a literature review of the most relevant academic and mediatic material published about the topic immediately before the EU membership referendum and over withdrawal negotiations, covering the 2016-2019 period, focusing on the UK-Ireland economic relations and on the deficiencies found in Northern Ireland. Through these same sources, we describe the evolution of negotiations between London and Brussels and the mechanisms proposed by the Northern Ireland Protocol, since it was the solution proposed by the Withdrawal Agreement for future cross-border relations.

With this context clear, we proceed to the quantitative portion, where we collect data on external trade (exports and imports of goods and services) between both the UK and the Republic of Ireland, as well as the level of FDI in each sovereign nation between 2016 and 2019. Sources include the UK’s Office for National Statistics, the Northern Ireland Statistics and Research Agency (NISRA), the Republic of Ireland’s Central Statistics Office (CSO), the House of Commons Library, and digital databases from the International Monetary Fund (IMF) and the World Bank. The material collected is subsequently listed and compared, to identify any impact the negotiations and the model proposed in the Withdrawal Agreement may have had in the exchange of products between both states for the period considered.

The results found are then interpreted according to milestone-events regarding negotiations, based on coverage by major local news outlets, including the BBC, The Guardian, and The Irish Times. Subsequently, the same method is applied to map the unemployment rate and GDP growth in Ireland and in the UK during the same period, seeking to identify any residual economic impact of the Brexit negotiations outside the international trade sphere. With this analysis, this article seeks to ultimately discuss if Brexit impacted on foreign trade, the level of FDI, and other major macroeconomic indicators in the Republic of Ireland and in the UK, to what extent it happened, and how it relates to the border debate.

4 THE IMPACT OF BREXIT ON IRELAND: THE WAY TO THE NORTHERN IRELAND PROTOCOL

Since the “Celtic Tiger” years (1993-2001), high degrees of trade and financial openness have allowed Ireland to experience socioeconomic prosperity. Consequently, local employment levels and income are sensitive to external factors, which explain Dublin’s concerns with the UK’s departure from the EU. Both countries nurture a close relationship in terms of trade, financial flows, and labour markets, leading to fears over any disruption (Arriola et al., 2018).

Northern Ireland is even more sensible since it constitutes a magnified version of the UK’s macroeconomic deficiencies. In 2015, the country presented persistent lower levels of investments, wages, and skills, reinforced by its dependency on the primary sector. Due to the virtual disappearance of the
border after 1998, Northern Ireland has turned to FDI to strengthen its economy, supplementing Dublin’s economic strategy. Due to the high degree of cross-border flows and cooperation, an “all-Irish” Single Market emerged (Brownlow & Budd, 2019).

There was a consensus between North and South that this should be maintained as much as possible, which went against the idea of completely disassociating British and EU regulations. Consequently, several solutions were proposed, mostly involving a level of special treatment for the UK regarding trade rules (Doherty et al., 2017).

A trade deal was the solution pursued by British authorities, initially inspired by the treaty signed between the EU and Canada in 2016. Since it removes 98% of duties for products traded between both territories, it translates into nearly no obstacles for Canadian exports to enter the bloc, with no need to comply with the Single Market, the customs union, the free movement of people, or to contribute to the EU’s budget. Commitments towards cross-border regulation and services would be necessary, but in a lower level than other models proposed (Botta, 2017).

Although neither London nor Brussels wished for tariffs and quotas to be introduced for the products exchanged, agreeing on the rules and regulations to be applied was still a significant challenge, since the document outlining the UK’s aims in negotiations expressed it had no intentions of aligning its laws and obligations with those of the EU, while sticking to these rules was Brussels’s main condition (Edgington, 2020). Consequently, crafting a new trade deal was an ambitious and challenging task, which became more evident with the December 2020 deadline initially promised by Boris Johnson’s administration.

Regarding Ireland, a more immediate solution was required for the Withdrawal Agreement, to avoid a hard border while the UK and the EU negotiated the final terms of its post-Brexit relations. As a “legally-binding insurance policy”, Theresa May’s administration designed the backstop solution, which Brussels insisted that should be included in any Brexit deal presented by the UK (Meredith, 2019). Originally, the UK proposed a model that would keep solely Northern Ireland in the Single Market and the customs union, leaving Great Britain free to negotiate new trade deals. The Democratic Unionist Party, one of the main representatives of Irish unionist interests on the subject, opposed to the idea. Subsequently, May proposed a UK-wide backstop, with its whole territory remaining in the customs union for an indefinite period, while Northern Ireland retained closer ties with the rules of the Single Market. This arrangement would apply until both sides considered it was no longer necessary (Campbell, 2019).

The backstop plan was agreed by UK and EU negotiators and included in May’s Withdrawal Agreement in November 2018. However, it sparked a backlash from many Conservative and DUP Members of Parliament (MPs), even leading to the resignation of Cabinet members as a form of protest. They feared the backstop would be a “trap” from Brussels to prevent the country from striking its own trade deals. Despite of the Prime Minister’s insistence, her plan was voted down in Parliament three times,
which ultimately led to her own resignation in May 2019 (Campbell, 2019).

After taking office, Boris Johnson compromised to “get rid” of the backstop option, proposing a “single regulatory zone” for the island of Ireland (Campbell, 2019). Ultimately, the results were codified in the Northern Ireland Protocol, included in the 2020 Withdrawal Agreement. Recognizing the need to respect the Belfast Agreement and the unique status of the island, it states that Northern Ireland would remain part of the UK customs territory, which implies its inclusion in any future trade deals signed by the British government. Nevertheless, for North-South trade in Ireland, the EU’s Union Customs Code will still apply, to avoid tariffs and restrictions (Stojanovic, 2020).

In practice, goods moving from Great Britain would not be subject of taxation unless there was a “risk” of subsequently entering the EU through Ireland. Likewise, goods from third countries would be subject to the UK tariff, unless there was such a risk. In case there was a chance of entering the Union, these products would be subject to the EU tariff. If there were subsequent proofs that they remained in Northern Ireland, the UK would reimburse traders (Stojanovic, 2020).

For this arrangement to work, Northern Ireland agreed to commit to specific EU rules, especially those of the Single Market, in areas such as technical regulation of goods, agricultural and environmental production and regulation, public aid, and other areas of North-South cooperation with the Republic of Ireland. Belfast had to automatically adopt any changes to these regulations made by the EU, and new areas could be added to the Protocol through an agreement with the Joint Committee, responsible for coordinating its implementation. The European Commission and the European Court of Justice would be responsible for overseeing the Northern Irish compliance with these rules. Furthermore, also to avoid regulations on the border, Northern Ireland would remain in the UK value added tax (VAT) area, but in full compliance with the EU’s and with full access to its IT system. British authorities would handle implementation, subject to the regulation of the European Court of Justice (Stojanovic, 2020).

The Protocol also created a new consent mechanism for the Northern Ireland Assembly. Four years after the end of the transition period, the UK compromised to allowing this legislature to periodically evaluate and vote on its trade elements, determining unilaterally the exact process for that. If consent is withheld at any point, the Protocol’s arrangements will cease to apply after two years. This time would be used to craft new recommendations to protect the Belfast Agreement (Stojanovic, 2020).

By creating this consent mechanism, negotiators guaranteed that the Protocol would operate during the transition period, and that it could be maintained afterwards, since its inclusion was expected in the new UK-EU trade deal. It also prevented checks and regulations on the physical Irish border, by moving them to posts in other parts of the UK. The DUP, as the main opposition to a special treatment for Northern Ireland, was also satisfied in its demand of giving the Northern Ireland Assembly a consultative role on the Protocol. Therefore, one of the most persistent obstacles in negotiations was removed, and with a larger parliamentary support after the 2019 general elections, Johnson was able to secure its approval.
Although conciliatory, the Northern Ireland Protocol still raised a considerable number of doubts on its effective implementation. Johnson committed not to extend the transition period after December 31st, 2020, which granted a limited time span for these arrangements to be in place. Furthermore, London’s subsequent practice would determine if the compromises made with Brussels would be maintained, since part of Johnson’s Cabinet was accused of working on a plan to remove the need for the implementation of EU regulations for products entering Northern Ireland (Polley, 2020).

The Protocol attempted to reconcile many of the dissonant positions that prevented an agreement for the UK withdrawal, but it did not clarify how its exact practical application would go. By leaving the consent of its extension to the Northern Ireland Assembly, it also compromised on providing satisfactory results quickly, as local legislators and community leaders could vote on its disruption. The outreach of the new regulatory measures depended on the final terms agreed for the future UK-EU trade, with real possibilities that no deal would be made by the predicted deadline (Lawless & Casert, 2020; Sargeant, 2020). In other words, a solution to the border issue was found, but its long or short-term character remains open, and relies heavily on the progress made by negotiators before the end of the transition period.


Considering how the Irish and British economies are related, any new trade dynamics would have positive or negative impacts on both countries, and disruptions of the status quo could be significantly damaging. Before the EU Membership Referendum, Purdue and Huang (2016) projected that, in a worst-case scenario, with heavy trade restrictions after Brexit, the Republic of Ireland could face a permanent loss of 3.1% of its GDP by 2030. In the best-case scenario, the loss would be of 1.1%. As the country’s second most important trade partner (behind the US), the UK’s departure would impact the Irish economy one way or another and authorities should focus on minimizing possible damages (Purdue & Huang, 2016).

By comparing and evaluating data on the indicators selected, the following subsections discuss how close the effects of the withdrawal negotiations and Brexit itself have been to these projections.

5.1 EXTERNAL TRADE (GOODS AND SERVICES)

In general, there were no disturbing alterations in the UK-Ireland trade since the Brexit Referendum in 2016. This is how the trade of goods and services between the UK and Ireland behaved between 2016 and 2019, in millions of euros:
Chart 1 shows a steady increase of Irish exports to the UK, as well as of imports from the neighbouring nation. The 2016-2017 period represented the most significant increase, of nearly 5.6 billion euros (CSO, 2021; Ward, 2020). This may be attributed to the lack of significant alterations in the UK status and border arrangements during this period, considering even Brexit was still uncertain, combined with Ireland’s recovery from the Eurozone crisis, which led to an increase of its industrial output and purchase power.

Although yet not completely available when this paper was written, data on trade of goods and services for 2020 interrupted this rising tendency. The sales to the UK started facing a decline by May 2020, after a 4.7% decrease of the Irish industrial output in April. However, it followed a 23.6% increase of the industrial production in March. Consequently, this setback is mainly attributed to the economic contraction caused by the COVID-19 pandemic in the EU, which hit Europe hard in the end of the first trimester of 2020 (Chance, 2020; CEIC, 2020). Direct correlation with Brexit, therefore, is unlikely.

If we expand the time span, Ward (2020) observed that the Irish export of goods to the UK fell from 56% of the total in 1974 to 11% in 2018. Accordingly, goods imports fell from 48% in 1981 to 20% in 2016. This reflects the Irish strategy when joining the EEC, and later the EU: using integration as a platform to develop policies less attached to the neighbouring island, decreasing its exposure to the British economy (Ward, 2020). Therefore, although both countries remain important partners, the Brexit impact may not be as destructive as predicted in some projections, since Ireland was already making efforts to diversify its trading partners, thus decreasing the amount of goods and services destined to the UK.

As for Northern Ireland specifically, the Republic figures as its main exports market. Opposite to the overall British economy, Northern Ireland is much more dependent on the export of goods, rather than services. It sells to the South mostly food and live animals, followed by machinery and transport equipment (Ward, 2020). Therefore, Northern Ireland relies much more on the trade with its neighbour.
than Great Britain, considering that, for the UK as a whole, the Republic of Ireland was only its sixth biggest export market in 2019, purchasing 5.9% of British exports (Workman, 2020).

This is how the North-South trade in Ireland looked between 2016 and 2019, in millions of euros:

As seen in the overall UK-Ireland trade, there are no great alterations in Northern Ireland either. Between 2016 and 2019, Chart 2 indicates that both exports and imports have grown steadily, with the former stabilizing at higher levels between 2018 and 2019.

Although there are still doubts on how effective the Northern Ireland Protocol will be on the long term, during 2020 it has already served as a mechanism to bring it closer to the Republic of Ireland, trade-wise. The imposition of checks on products coming from Great Britain, as agreed in the Protocol, led local suppliers, specially from the food market, to seek more business opportunities in the South, since the border remains open, which translates into less bureaucracy. Therefore, post-Brexit is providing new incentives for both sides to build closer ties, which is likely to pave the way to an increase in trade over the coming years, if no significant alterations are made in the Protocol (Halpin & Holton, 2020).

Trade with Great Britain, however, may prove to be more complicated by these same checks, performed on products crossing the Irish sea. This may become a problem for Northern Ireland, since the island remains as the main source of its imports of goods, accounting for 60% of Belfast’s external purchase in 2018, a value four times bigger than the imports from the Republic of Ireland (Halpin & Holton, 2020). In other words, Northern Ireland may face on the short term an impact on its trade balance, but the open border with the South still offers an opportunity for it to tackle the issue by finding new buyers for their goods.
5.2 FDI

Another of the indicators bound to be impacted by Brexit is the FDI, which is traditionally very high on both the British and European sides. The EU’s stocks in the UK were estimated to account for 8.3% of its GDP when withdrawal negotiations started in 2017, while British investments on the bloc accounted for 26.6% of its GDP (Belke & Gros, 2017). Particularly for the Republic of Ireland, the UK is its 5th biggest investor, holding 6% of the stocks in the country in 2018 (Santander Trade Markets, 2021).

Yearly, this is how the FDI level has evolved in Ireland since the 2016 Referendum, in billions of US dollars:

![Chart 3. FDI in the republic of Ireland (2016-2019)](source: World Bank (n.d.).)

Since Brexit was triggered, Dublin has been struggling to maintain the country as an attractive destination for investments and international competitiveness, which were key to Ireland’s development since the 1990s. With new economic barriers being raised with the UK, Ireland is now looking to compensate foreign investor’s losses in the neighbouring island by diverting those funds to its own territory (Center Forward, 2019). However, the level of outflows (profit made by foreign investors) has not yet approached the 2016 peak. As for the inflows (profit made by national investors), it faced significant decreases in 2017 and 2019, coinciding with the beginning of withdrawal negotiations, May’s resignation and the rush to craft the Withdrawal Agreement. Therefore, although still an attractive destination for investments, Ireland has suffered from insecurities caused by Brexit and the corporation tax policy, which allows firms to book the revenue with a lower Irish taxation, rather than paying taxes in the place where it is generated. As a result, the money generated through FDI evades the country more easily (Keane, 2020).
On the UK side, however, a 25% loss of FDI was expected due to Brexit (Center Forward, 2019). This is how this indicator behaved since the Referendum, in billions of US dollars:

As seen on Chart 4, the British FDI had a similar behaviour than the Irish between 2016 and 2019. Both inflows and outflows have faced decreases, with negative results for the second indicator in 2019. The projected fall between 2016 and 2018 was 92%. The growing distrust over the UK, especially when the terms of its withdrawal from the EU were unclear, offers us the most exact explanation for this phenomenon. However, since the levels of FDI suffered a worldwide decrease during this period, especially due to the uncertainties of the then newly inaugurated Donald Trump administration in the US, suggest that this tendency main be reversed over the following years (Ball, 2018).

The country remained an attractive destination for investors, with London hosting around 60% of foreign companies in the country (Nordea, 2021). Nevertheless, there was a consensus between analysts that the level of FDI entering the UK would be impacted in the short- to medium-term since the EU, as one of its main investors, would face new obstacles to maintain the level of flows and mutual trusts between local companies with a country that has departed from the bloc. Post-Brexit practice, however, may offer new assurances that will translate into a renewed increase of inflows for the UK (Webb & Ward, 2017).

5.3 GDP GROWTH AND UNEMPLOYMENT RATE

Other macroleconomic indicators, such as GDP growth and unemployment rates, also do not suggest negative impacts directly related to Brexit developments.
In the Irish case, despite of pessimist analysis, its GDP increased in nearly 7% in 2017, with lower growth levels in subsequent years, but still above 4%. Accordingly, due to the country’s quicker recovery from the Eurozone Crisis in the early 2010s, its unemployment rate decreased from over 8% to nearly 5% between 2016 and 2019. As for the UK, these indicators presented less promising, but still positive results. The British GDP grew between 1% and 2% over these three years, while the unemployment rate accounted for nearly 4% of the labour force in 2019 (IMF, n.d.).

Therefore, no major negative changes have occurred since the Brexit Referendum regarding trade or the macroeconomic indicators previously mentioned. However, the UK’s departure from the EU did happen, and the future trade dynamics depends on the success of the Northern Ireland Protocol and of the
EU–UK Trade and Cooperation Agreement. Consequently, damaging outcomes are still possible.

6 CONCLUSIONS

The data presented in this article does not suggest significant changes in the UK–Ireland trade between the 2016 Referendum and the crafting of the Withdrawal Agreement in 2019. During this period, the exports from the Republic of Ireland to the UK increased in nearly 11.5 trillion euros, while the imports increased in nearly 9 trillion (CSO, 2021). Trade within the island of Ireland was also not negatively affected, with North–South exports and imports increasing in nearly 9 billion and 4.5 billion euros, respectively (NISRA, n.d.; Ward, 2021). Both the UK and Ireland also presented positive results in the other indicators compared, with GDP growth above 1% and unemployment rates below 6% (IMF, n.d.).

However, alterations are still taking place. On Ireland’s side, EU membership, the open border with the North and its popularity among investors offer more options to manage Brexit’s economic impact. FDI, however, has been affected by these uncertainties and the country’s tax policy. The UK faces a more negative situation, which includes the decrease in the profits acquired through FDI and the more difficult access to the EU market. In Ireland, the outflows led to a negative result of nearly 150 trillion US dollars in 2019, while the inflows accounted for a 50 trillion loss. As for the UK, the inflows remained at positive levels, although they decreased in over 300 trillion between 2016 and 2019, whereas the outflows accounted for a loss of nearly 67 trillion (World Bank, n.d.). Therefore, the level of investments was the most negatively impacted indicator, with the UK in a more fragile position.

Despite of diversifying its trade partners over the last decades, the Irish economy still maintains close ties to the UK, a relation that is perpetrated by the country’s exposure to external activity. As a result, the imposition of new regulations for trade between both nations, even on the Irish Sea, will most likely translate into a decrease in the longer term of the demand for Irish exports and its levels of production of goods and services (Bergin et al., 2017). Therefore, there are no signs of a severe disruption of the UK–Ireland trade relations, but they must adapt to this new reality, where EU membership is no longer a common factor.

The Withdrawal Agreement, the Northern Ireland Protocol and the EU–UK Trade and Cooperation Agreement provide a much stronger ground upon which analysts can evaluate post-Brexit developments, since previous speculations were replaced by a defined regulatory framework. Although conciliatory, its implementation will require time to show results (Polley, 2020). In Northern Ireland, the apparent compromise of both nationalists and unionists to protect the Belfast Agreement, recognizing it as the most effective instrument to prevent a new armed conflict and to protect the country’s more fragile external trade, is set to act as the main guide in the Assembly’s evaluation of the Protocol (Geoghegan, 2018).

Considering the Brexit experience and historical factors, any solution for this new external border will only be successful when acting accordingly to previous agreements on the subject and to the specific
North-South dynamics developed in Ireland since 1998. The 2020 Withdrawal Agreement presents a set of instruments to allow these fruitful relations to continue in the future. If words turn into actions, and compromises are maintained, Ireland’s political stability and external trade may ultimately survive the impact of Brexit.
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