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No-Deal Fallout

The UK's abrupt exit from the European Union would deliver a shock to Ireland's economy. **Jake Mulcahy** has been delving through the economic models and forecasts

Ever since the UK voted to leave the European Union in June 2016, legions of economic boffins have set about divining the impact of this decision on the Irish economy. For the past three years, it was unclear what eventual future relationship between the EU and the UK would arise from the referendum result. Thus the stream of forecasts from institutions such as the Central Bank of Ireland, ESRI and the Department of Finance seemed like abstract hypotheticals on a wide range of outcomes.

Now Boris Johnson is the UK's prime minister with an ironclad 'do or die' commitment to leave the EU by October 31. The EU, egged on by Dublin, steadfastly refuses to reopen the Withdrawal Agreement negotiated by Johnson's predecessor, which has been rejected in the House of Commons three times.

Short of an eleventh hour compromise or unprecedented parliamentary manoeuvring in Westminster to thwart Johnson, the prospect of the UK crashing out without a deal in a matter of weeks is now very real. In light of this looming rupture with Ireland's closest trading partner, it is worth revisiting those no longer abstract forecasts and try to draw some general conclusions about the impact of a no-deal Brexit on the Irish economy.

It is useful to begin by asking how these forecasts are made, why are they different and whether they are reliable. Most forecasts of the impact of trade disruption or of trade liberalisation rely on macroeconomic models called 'gravity' models. These models assume that countries' proximity to each other and the relative size of their economies will determine the amount of trade they do with each other.

In the past, gravity models have been used to show that EU and EEA member states conduct more trade with each other than the fundamentals of size, proximity and so on suggest i.e. the EU has facilitated more trade. Some forecasts of a no-deal Brexit's impact on the Irish economy that use gravity models merely reverse the effect of trade liberalisation.

Yet as the state-funded Economic Social and Research Institute noted in a March 2019 forecast, there are two caveats to consider in relying on this approach. Firstly, the models usually give out a very wide range of estimates of the reduction in bilateral UK-EU trade, roughly between 25% and 65% for goods, and 20% and 65% for services.

Secondly, a no-deal Brexit is a historically unique form of disruption to trade between economies that have been deeply integrated for nearly fifty years. The concept of path dependence suggests that British and Irish businesses with long-standing ties could continue to trade as before despite new trade barriers.

The alternative approach to gravity models generally begin with amassing

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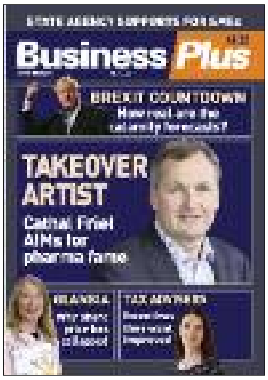

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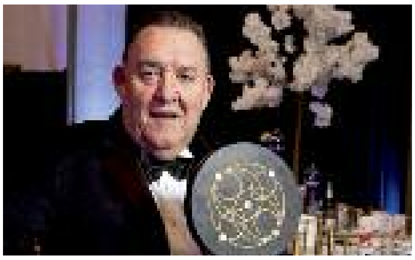

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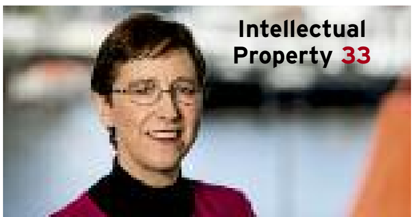

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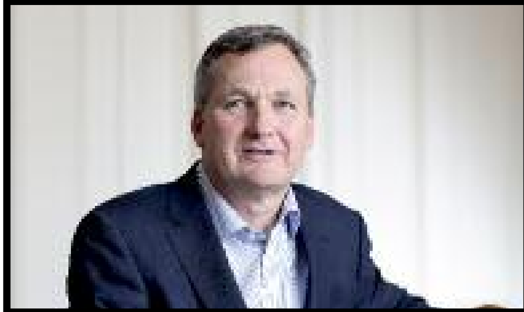

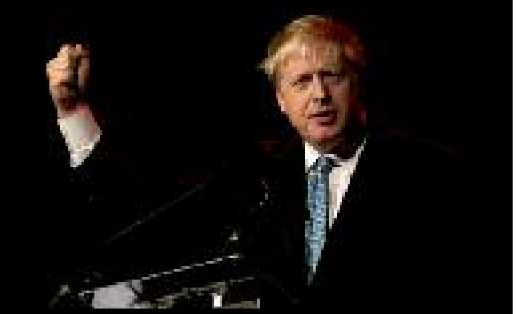

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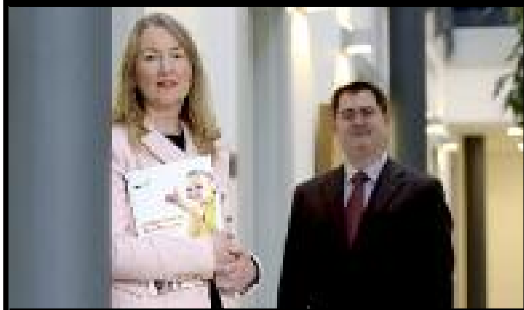

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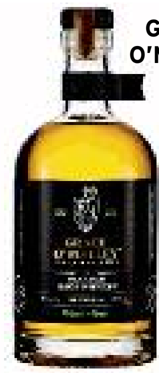

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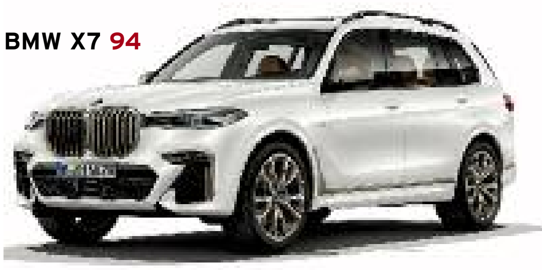

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