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Worse things could happen than a Brexit

It degrades Ireland to say we need the scraps from Britain's table, writes **Daniel Hickey**

Right from the start of the debate about the implications for Ireland were the UK to leave the EU, the logic and veracity of the conclusions from Official Ireland have been highly questionable.

The recently published ESRI report adds little to the debate and merely clouds the key issues further.

The report identifies nine possible outcomes to the British negotiations with the EU. Four involve it staying within the EU; five involve it leaving. It then goes on to make the following assertion:

"Given the wide range of possible outcomes... it is easier to focus on a worst case scenario; an exit of the UK from the EU – Brexit."

It is in this context that it makes the claim: "Estimates from literature suggest that a Brexit is likely to significantly reduce bilateral trade flows between Ireland and the UK. The impact could be 20 per cent or more."

So let's forget what the most likely outcome is, and let's assume it is a disaster!

Effect on trade

The report shows that since joining the EU, Ireland's trade flows of merchandise have changed dramatically, with the share of exports to the UK falling from 56 per cent to 15 per cent, while imports previously over 50 per cent are now 32 per cent.

It is clear therefore that, despite any requirement or incentive to move from the UK as a major trading partner, its importance has fallen.

> **"There would be plenty of time to overcome negative effects of Brexit on our supply chains**

The report does concede that should the vote result in Brexit being approved, it would be years before any agreement would be finalised. There would be plenty of time to overcome negative effects of Brexit on our supply chains. This ability to 'react' is ignored and is a major weakness in the analysis.

FDI

The report states that the UK is the leading location for FDI (foreign direct investment), and that EU membership is a "key factor" in attracting FDI to the UK.

The major competitor to Ireland for FDI is the UK. If the UK is no longer a member of the EU it seems patently obvious that the UK would not be a runner in the race for FDI to the EU, and thereby improve our chances of winning a given FDI opportunity. But no.

The ESRI thinks that if the UK lose out on FDI opportunities, it would be bad for Ireland, as the UK would be a weaker market for Irish goods.

Such an argument is akin to saying that not getting the crumbs from the British economic table would be bad for Ireland. Surely the Ireland of today should be targeting more than the crumbs, and seek to win the big prizes ourselves.

The mindset behind this argument reminds me of what Paddy Cosgrave said earlier this year when he said that the British view was that the low-value back office jobs are the ones that Ireland should target, and let London get the high-value front office ones. I find this mindset to be degrading of Ireland and its capabilities.

In an attempt to downplay the loss by the UK of FDI, the ESRI report highlights reasons why the UK is more attractive than Ireland for FDI as follows:

"These include factors such as market size, market potential, labour costs, human capital, proximity to other foreign affiliates, trade and investment barriers, and corporate taxation."

Does the ESRI not get the message that a UK outside the EU would have a smaller market to access unhindered than Ireland? The UK, or perhaps one should be saying England, would have 50 million consumers, while Ireland would have 500 million available.

The report also understates the success Ireland has had at winning FDI even when the UK are in the race. Its conclusion contrasts sharply with a study published earlier this year by the American Chamber of Commerce Ireland, which showed that Ireland is the number one destination in the world for US FDI, and that in the first nine months of 2013, US FDI to Ireland rose 42 per cent to $37 billion, while total investment to Europe fell 19 per cent to $115 billion.

The labour market

The report focuses on the "migratory links between Ireland and the UK.... Our analysis will tend to focus on the extreme case in which the UK leaves the EU without ongoing arrangements to facilitate a continuation of the four freedoms . . . In this way, we will be considering a worst case scenario."

Their conclusion then is that wages would fall in Ireland by either 3.9 per cent or 3.7 per cent depending on the low-skill adjustment assumption. The wage fall is larger for high-skilled people at almost 5 per cent.

Given the grave shortage in Ireland today of skilled people, this conclusion by the ESRI bears no resemblance to the reality business managers face on a daily basis. Furthermore, the analysis is so divorced from reality it shows no worthwhile insight into what might happen in terms of wage rates were Brexit to materialise.

I have no doubt that the "worst case scenario" assumed by the ESRI report is, at this stage, so remote that we should be spending our time on the many real issues we face, and not be distracted by this nonsense.

Over the next two to three years, a far greater threat to Ireland Inc is a weakening of sterling. This is what the Irish government should be focusing on. Unfortunately, government policy has worsened our position and done little to prepare us for this real threat.

Daniel Hickey is the owner of AllinAll, a food ingredients company. He is Vice President of the Irish Exporters Association, and a former Chairman of ISME