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'Brexit' vote could hurt exporters

The European Commission has forecast that Irish GDP will grow by 4.5% in 2016, compared with 1.8% for Germany, 1.3% for France and 2.1% for the UK.

Paschal McCarthy, MD of GE Healthcare Ireland and president of the Irish Exporters Association, told the recent IEA Export Leadership Forum in Dublin: "Ireland is now the second fastest growing economy in the world, behind only India."

Irish exports surged 20% to reach €111 billion last year, taking Ireland's trade surplus to €44bn. Services have accounted for much of the country's export success since the millennium, but goods manufacturers are in better health than for some years, helped by a sharp depreciation of the Euro against Sterling and the US dollar.

The best performing sector in 2015 was pharmaceuticals and medical devices, which saw exports increase by €28bn to €64bn. Food & drink and technology exports are also running strongly, and there are rumours that IBM is considering a return to production in Ireland.

Europe and North America account for 83% of Ireland's foreign trade, which to some extent insulates exporters from global factors such as the slowing Chinese economy. Data from the Central Statistics Office show that China takes only 2% of Irish exports, making it less important than Switzerland.

However, a British vote to leave the EU in its referendum in June would raise issues much closer to home. So-called "Brexit" is likely to reduce bilateral trade flows between Ireland and the UK by at least 20%, according to a white paper published by Ireland's Economic and Social Research Institute (ESRI).

"For merchandise trade in particular, trade is very concentrated in a few product types, which implies that increased trade barriers would have a significant impact on total trade volumes," the authors say. The report highlights the agriculture, food & beverage and basic metals sectors as the most dependent on exports to the UK, and thus potentially the most vulnerable.

The UK's importance as a destination for Irish exports has diminished over the last 40 years. In 1974 its share was more than 56% of the total but by 2014 the proportion of merchandise exports destined for the UK had shrunk to just over 15%, although the UK was still the second largest export destination for Irish exports after the US (22%). Other major destinations for Irish merchandise exports are Belgium (13.2%), Germany (6.6%), Switzerland (5.9%) and France (5.2%).

Recent research by the Ifo institute in Germany, quoted by ESRI, suggests that UK GDP per capita will fall by between 0.6% and 3.0% by 2030 if it leaves the EU, relative to its level if the vote is in favour of remaining in the EU. Brexit would hit Ireland harder than any other EU member owing to trade losses and other effects, with anticipated GDP per capita losses of up to 2.7%.

Since UK exports to the EU will be affected by Brexit, there may be opportunities for Irish exporters to capture some of this market. But the white paper points out that smaller firms tend to use the UK as a springboard, first learning to export there before looking further afield, so they may not be able to capitalise.

Ireland may also need to develop new import supply channels, ESRI says, since any increase in trade barriers is likely to increase prices out of the UK. And if full border controls were to be reintroduced between Northern Ireland and the Republic of Ireland, the authors say it would be "a worryingly regressive step".

Some industry observers believe Ireland would benefit from additional foreign direct investment (FDI) following Brexit. The argument runs that the UK would fall out of favour because of reduced access to the EU single market, and general uncertainty.

Michael McCarthy at the Port of Cork believes companies would want to stay based in an English-speaking EU member country, and says some are already making enquiries. The cost of living in Cork is lower than in Dublin and office space is more readily available, he claims.

ESRI is unsure how this would play out. "Ireland's advantage relative to the UK's attractiveness to FDI is its more competitive corporate taxation. However, on the basis of patterns of the location choice of new FDI projects in Europe over the past 10 years, the additional attractiveness of Ireland is likely to be small.

"Ireland's attractiveness to FDI is already high, relative to its size and geographical position in Europe. Relative to Ireland, the UK has a number of attractiveness advantages due to its larger market size and better performance with respect to financial market development, technological and innovation capacity, macroeconomic environment, and labour market efficiency," the white paper concludes. "These advantages are likely to continue to attract FDI to the UK even outside the EU."