

## Box F: The Northern Ireland Protocol – Lost Opportunities for Northern Ireland?

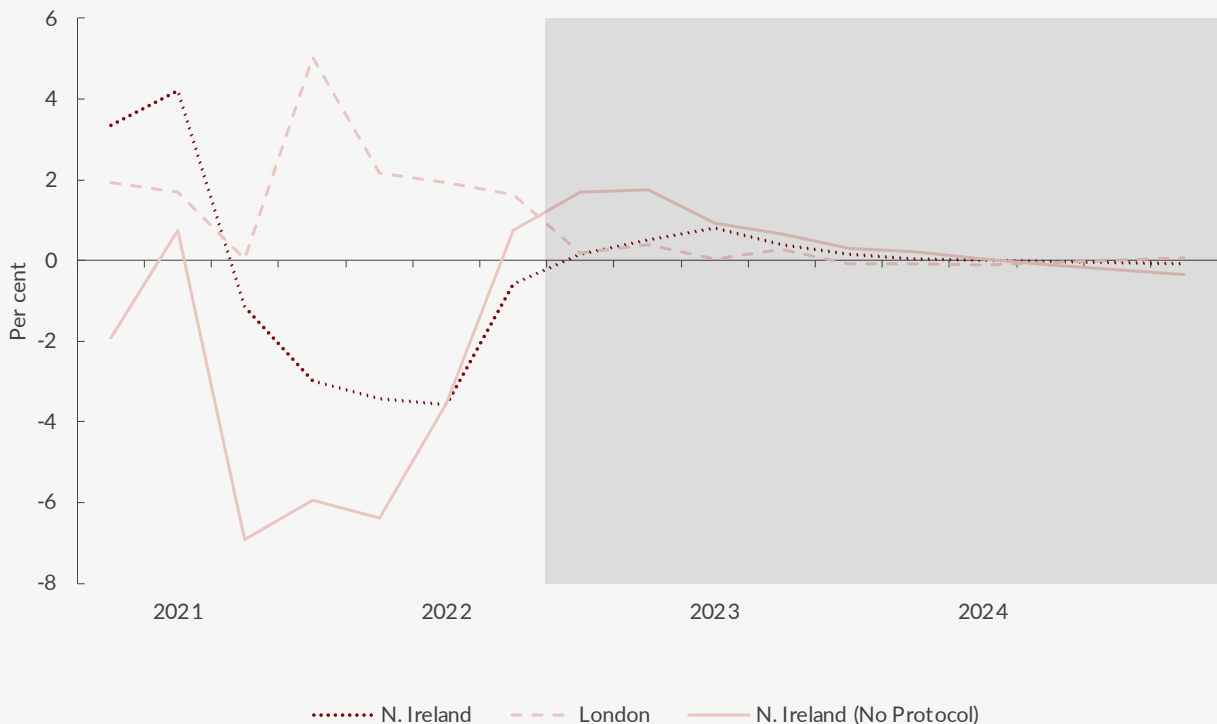
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Despite inherent structural, political and policy weaknesses (Brownlow, 2020; Jordan, 2022), post-Brexit output growth in Northern Ireland (NI) presents an enigma. Specifically, output in Northern Ireland has evidenced one of the strongest recoveries from the pandemic post-Brexit (ONS, 2021; Bhattacharjee et al., 2022).

Against this backdrop, while the Northern Irish economy has regained its pre-pandemic level, there is a question as to how much of NI's economic performance can be attributed to the NI Protocol. Bhattacharjee et al. (2022) presented counterfactual GVA trends for NI, relative to the UK as a whole, as projected before the Brexit deal and under the NI Protocol. This presented a robust outlook post-Brexit relative to the UK as a whole, but much weaker than London.

Here, we present the evidence in a slightly different way, comparing the growth rates in GVA for NI from the latest round of projections, with what was projected for NI in early 2019. To showcase the performance of the Northern Irish economy we calculate the year-on-year growth for the region under our current view and the “No protocol” counterfactual. From this growth rate we deduct the growth rate of the UK average to better highlight over- and under-performance trends over time. Figure F1 shows the results of this exercise for the two NI cases (with and without the NI Protocol), as well as London.

**Figure F1** GVA growth rate relative to UK average



The figure reveals that the Northern Irish economy would have fared worse without the protocol in the short term. In particular, the “no Protocol” counterfactual starts with a lower growth rate and drops more in 2021.

Why did NI experience this robust recovery from the pandemic? One explanation lies in sectoral variation. First, the public sector has a larger employment and output share in NI, and it remained robust over the pandemic, even expanding as the process of Brexit gained force. Another important sector is trading/logistics (Keane, 2022). Between January and May 2022, exports from NI to the Republic of Ireland increased by 23 per cent, while trade in other direction grew by 42 per cent, relative to the previous year (O'Carroll, 2022). It would then appear that being in the EU single market and customs union (via the NI Protocol) helped NI achieve relatively robust recovery from the Covid-19 shock.

Can this growth trend be sustained and even amplified? Trading activity is relatively low value added and need not provide impetus in the medium run unless the robust trends are replicated in other sectors. This depends partly on NI's capacity to attract investment (Jordan, 2022), particularly Foreign Direct Investment (FDI). There are some opportunities here, particularly in high technology and knowledge intensive sectors where the share of employment has increased very rapidly over the period 1999 to 2019 (Brady, 2022), at a rate second only to London, and very close also to growth in the Republic of Ireland. It is therefore plausible that NI can attract FDI and other investment in some sectors with higher-paid and green jobs and importantly globally-tradable, high value-added activities.

However, success depends on the policy and political environment (Brownlow, 2020) as well as inherent capital. Here is where the good news is more limited. Not only is productivity in the nation low and employment growth sluggish, but the population is also poorer than elsewhere in the UK and has been severely affected by the Covid-19 shock and cost of living crisis (Bhattacharjee et al., 2022; Murphy, 2022).

Most importantly, the NI Protocol has been very divisive to the extent that political turmoil resulting from it has got Stormont to a standstill with no reasonable end in sight (BBC News, 2022). Pre-Christmas elections in the middle of a cost of living crisis (which the nation is struggling with not least because of its location in the colder and wetter part of the country) would have been a major distraction. However, it seems that resolution to the Brexit impasse and devolved administration in Northern Ireland is equally urgent. Thus, the Brexit process itself has been a double-edged sword, particularly in the face of policy and politics that have exacerbated uncertainty rather than reducing it (Pabst, 2022).

In the face of policy paralysis and political uncertainty, gains for Northern Ireland seem to be only temporary (Figure F1), with the “no Protocol” growth rate rebounding much more and leading to above UK average growth rates, before converging with UK growth rates in the long run. This paints a picture of NI being only a temporary beneficiary of the EU's single market and customs union. But also, one must not lose sight of its performance compared to other booming regions of the UK, such as London. For this reason, the Protocol should be viewed as a temporary boost, but to convert this into long term success, policymakers must focus on getting Stormont to function again, improve devolved decision making, find better skills-jobs matches, and increase productivity and employment in the region.

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