

From the Editor: In this first issue of showCASE in 2019, Andy Harney, a student in Law with Politics at Queen's University of Belfast and intern at CASE, shares with us his thoughts on the potential impact of a hard Irish border following Brexit.

No Brexit? Conflict in Northern Ireland? The Fall of the UK? – The Impact of a Hard Irish Border

By: Andy Harney, CASE Intern

Where Are We Now?

Two and a half years after the UK decided to leave the EU, the House of Commons are set to vote on the withdrawal agreement negotiated between the UK and the EU. The Irish border issue remains one of the main obstacles to the deal being passed. A hard border would be devastating for Ireland: it would have a notable impact on the economy, reopen old wounds, and could even indirectly undermine the integrity of the UK. This sensitive and highly complex issue has severely limited the type of exit deal Prime Minister Theresa May's UK government could negotiate with the EU.

Even if the deal brokered by the government is accepted by Parliament, the political [declaration](#) does not define the future relationship between the UK and Ireland very clearly, and it will require further negotiation during the transition period. What is commonly referred to as the backstop is a way of avoiding a hard border, if a fully open Irish border cannot be negotiated in trade talks by the end of the transition period (December 2020). In Theresa May's withdrawal agreement, it is defined as a single customs territory covering the whole of the UK, with Northern Ireland following EU rules to forestall the need for border checks between Northern Ireland and the Republic of Ireland (NI and the Republic henceforth). Both the EU and the UK have agreed that the backstop should be a temporary solution, yet there is no upper time limit for it in the current proposal, and the UK cannot leave it unilaterally. At the same time, the UK government wishes to avoid the UK remaining locked in a customs union with the EU as this would prevent the UK from negotiating (independently from the EU) its own international trade agreements. Therefore, the political declaration, somewhat vaguely, proposes that 'facilitative arrangements and technologies [will] also be considered in developing any alternative arrangements for ensuring the absence of a hard border on the island of Ireland.'

The withdrawal agreement, due to be voted on last month, was delayed by the Prime Minister, who [admitted that](#) 'widespread and deep concern' over the backstop meant her deal was likely to be defeated. This has continued, Democratic Unionist Party leader Arlene Foster going as far as to [label](#) May's backstop plan 'dead' on January 9th.

As the Prime Minister has commented that it was her deal or no-deal, no-deal is beginning to look increasingly likely. This would involve the UK leaving the EU without a withdrawal agreement, meaning the Irish border would become an external frontier for the EU and there would be pressure to enforce customs and immigration controls.

In a Nutshell: Why the Border Is So Sensitive an Issue?

The border between the Republic of Ireland and the United Kingdom runs for 500 kilometres from Carlingford Lough to Lough Foyle dividing the Republic of Ireland from Northern Ireland and boasting 275 crossing [points](#). It is the only land border with the UK and therefore, after Brexit, it would remain the UK's only land border with the EU.

The partition of Ireland in May 1921 divided the island into two jurisdictions, Northern Ireland and Southern Ireland, under the Government of Ireland Act 1920. Following the 1919-21 War of Independence and the 1921 Anglo-Irish Treaty, Southern Ireland became the Irish Free State, while the North opted to remain in the UK. While some feel partition was necessary, the division of such a small, tightly-knit island has caused problems – the latest of which materialised with Brexit.

Irish Nationalists have aimed for the reunification of Ireland, while Unionists have wanted NI to remain part of the UK. The ethno-nationalist conflict known as 'the Troubles,' lasting from 1968 to 1998, was heavily linked to the constitutional status of NI and claimed the lives of 3,500 people. Military checkpoints were implemented during 'the Troubles' but then removed following the 1998 Good Friday Agreement – and the border became invisible.

What Enables the Border to Be Open?

The border is currently invisible thanks to three main reasons. First, both the Republic and the UK are part of the Common Travel Area, an arrangement providing for an open borders area including the UK and the Republic of Ireland. Second, both are members of the European Single Market, which consists of the EU's twenty-eight Member States, as well as the members of the EEA and Switzerland, and serves to eliminate tariffs, quotas or taxes on trade while also ensuring the free movement of goods, services, capital, and people. Third, both states are members of the EU Customs Union, which facilitates free trade by ensuring that each Member State applies the same import duties on goods entering the union. As a result, goods can travel freely once they are within the EU.

Why Have a Hard Border If Nobody Wants It?

As soon as Theresa May outlined [her](#) red lines of leaving the Single Market and Customs Union in January 2017, it became evident that an unfortunate by-product of these was a serious 'border problem' in Ireland. The Republic and NI have been highly integrated, and any boundaries would have disastrous consequences, for example practical difficulties related to the single electricity market which NI shares with the Republic. According to a UK government [technical](#) notice, if the UK leaves with no deal, electrical supply between the two could be disrupted. Furthermore, the economic relationship will be undermined. All the same, the main concern focuses on the impact it will have on the fragile yet hard fought peace in NI and potentially, for the UK Government, the integrity of the UK.

The Irish Government has strongly opposed a hard border from the outset of Brexit negotiations. Also, Irish Prime Minister Leo Varadkar [reported](#) as recently as on December 20th, 2018 that his government had made no plans to facilitate a hard border. Similarly, not only does May's withdrawal agreement include the backstop, the British Government has not published a no-deal technical notice for the Irish border, suggesting it aims to avoid a hard border at all costs.

Yet, it is uncertain how this goal is to be achieved. It has been suggested that 'facilitative arrangements and technologies' in May's withdrawal agreement could include X-ray scanning of vehicles alongside number plate recognition technology; blockchain; and electronic customs registration. Each of these, however, has been criticised for being untested or even imaginary. Also, the prospect of 'trade facilitation posts' ten or fifteen kilometres away from the border falls under the Irish government's definition of a hard border. This is why, in the view of some, an invisible post-Brexit border does not appear viable. Some have even [labelled](#) it 'naïve'.

Furthermore, as the no-deal scenario is beginning to look increasingly likely, the Irish Prime Minister indicated that should it come to pass, it would be 'very difficult' to avoid a hard border. The UK would be subject to the World Trade Organisation's rules and their exports would face the same checks and tariffs as other countries outside the EU. Also, the EU would impose checks at its borders (the Irish border in this instance), something essential to protect the integrity of the Single market and Customs Union.

'The Easiest in Human History'?

Forging a trade agreement with the EU has certainly [not](#) been 'one of the easiest in human history,' as UK Secretary of State for International Trade, Liam Fox once claimed. The Irish border is largely responsible for preventing numerous potential deals.

For example, Boris Johnson's 'Super Canada' alternative Brexit plan was dismissed by Ministers in September 2018, as it did not include a backstop on the Irish border. It would allow the UK to maintain its own rules and sign trade deals with other non-EU nations. However, goods coming from the UK into the EU through the Irish border would be subject to checks, necessary to [ensure](#) that customs declarations are filled in correctly, to check product standards or VAT payments, and to ensure the safety of food and animal exports. Johnson's [idea](#) to simply 'junk the backstop' and 'agree that neither side will introduce a hard border in NI' is something the EU will not agree to, as it would undermine the integrity of its Single Market and Customs Union.

Meanwhile, the 'Norway Plus' option was [once](#) described by Michel Barnier, the European Commission's chief Brexit negotiator, as the only satisfactory answer to the Irish border issue. It would involve the UK leaving the EU but joining the European Free Trade Agreement (a free-trade area inside the EU Single Market). Yet, this option would involve Prime Minister May going against her red lines. The UK, while free from the jurisdiction of the European Court of Justice, would have to answer to the EFTA court, accept the EU's freedom of movement rules and join a customs union with the EU. Joining a customs union with the EU would be necessary to avoid physical infrastructure in the form of tariff barriers on the Irish border. This is where the 'plus' in Norway Plus comes in: Norway is not in a customs union with the EU, and therefore some checks remain on the Norway-Sweden border. As both are members of the Schengen Area, there are no immigration controls. However, since Sweden *is* part of the EU and *crucially* the Customs Union, customs checks *do*, in fact, take place.

Another option would be to place the UK in a permanent customs union with the EU. This plan is supported by the Leader of the Opposition Jeremy Corbyn as a way to avoid the backstop. While this would eliminate the need for customs controls to collect tariffs, controls themselves would not disappear entirely. Only in a single market are product standards harmonised, eliminating the need for customs checks. Yet, with the UK being permanently tied to the EU's customs union, such a scenario would prevent Britain from striking international trade agreements. Moreover, the UK would be subject to trade agreements the EU strikes with other countries, likely without having a say on them.

The Economic Significance of Avoiding a Hard Border

A hard Irish border would affect both sides of the border economically, especially NI, which is much more reliant on the Republic than vice-versa. While from the perspective of the UK as a whole, trade across the Irish border is relatively small (with Dover-Calais trade [worth](#) approximately 20 times more), it is essential for many local businesses.

The Republic is by far NI's largest external [trading](#) partner, with cross-border trade making up 34% of their total exports. It is therefore no surprise that the withdrawal agreement with its backstop solution has been met with support from the NI business community.

The agri-food and farming industry in the area is the most at risk from a hard border. Overall, 60% of NI's food and live animal [exports](#) are destined for the Republic's market. For example, 50% of all lambs born in NI are shipped to the Republic for slaughter; if export tariffs were applied, their unit price would rise by around 30%. A hard border would have terrible consequences for 23,000-30,000 [workers](#) who cross it every day and 177,000 lorries and 250,000 [vans](#) which cross it monthly.

This compares to the withdrawal agreement which Karen Bradley, Secretary of State for NI suggested [puts](#) NI in an 'unrivalled' position to attract global investment. The backstop would mean that NI would gain a competitive edge in trade with the EU. While the UK would form a single customs territory with the EU, only NI would follow the full EU customs code. NI businesses could get their goods into the Single Market undisturbed. Therefore, NI would become attractive to manufacturers seeking to target both the UK and EU markets.

The Republic's relationship with mainland UK is much more significant than its trade with NI. Its [trade](#) with NI across the border is relatively small at only EUR 3 billion, especially when compared with trade to mainland Britain, which is ten times greater and constitutes 15% of its external trade. It has been argued that the Irish government is focusing too much on the border issue, and not enough on west-east trade. While the Republic will feel the negative effects of Brexit more than any other EU Member State, the Irish border will only be a contributory factor. The Republic's main concerns regarding the border focus on maintaining peace rather than the economic status quo.

Finally, at the expense of both the Republic of Ireland and NI, a hard border would likely mean a return to smuggling. Indeed, complying with the customs procedures required to cross the border after leaving the Customs Union would increase business [costs](#) by around 24%. Therefore, those willing to take the risk could be met with an attractive profit whilst law-abiding [firms](#) may suffer. In fact, illicit trade could [cost](#) the Irish exchequer and industry, respectively, EUR 800 million and EUR 1.59 annually.

Maintaining Peace

It is essential that any Brexit Agreement does not undermine the Good Friday Agreement, yet any form of hardening the border would undoubtedly do so. The Good Friday Agreement was a watershed moment in the history of NI that brought an end to 'the Troubles'. In the [words](#) of Hilary Clinton, 'countless people in Northern Ireland are alive today, rather than in early graves because of it.' The importance of maintaining peace in NI has been emphasised from the off-set of Brexit-related negotiations. Indeed, on March 29th 2017, when Prime Minister Theresa May [notified](#) Donald Tusk, President of the European Council, of the UK's intention to leave the EU, she stressed the importance of preventing a hard border for peace in NI.

In this context, it is unsurprising that army checkpoints were targeted by Republican paramilitaries during 'the Troubles,' who viewed them as symbols of the British state acting to divide the island of Ireland. The Chief Constable of the Police Service of Northern Ireland, George Hamilton has [stated](#) recently that any physical infrastructure on the border could become a target for dissident republicans. In a recent NI [poll](#), 55% of respondents agreed that a hard border would threaten the peace process.

Given the sensitive history and the present tensions prevalent in NI, the possibility of an increase of violence should not be underestimated. For example, the NI Assembly has not been restored following its collapse in January 2017 because of disagreement between the main nationalists and unionist parties. Also, a recent [poll](#) found that 51% of people in NI have few or no friends of a different religion.

Damage to the Integrity of the UK

A hard border could also boost support for a united Ireland: in a recent NI [poll](#) 62% of people surveyed felt that Brexit made it more likely. Those valuing EU membership over UK membership could be attracted to uniting with the Republic (which will remain in the EU). For example, many supporters of Alliance and Green parties had previously been satisfied with the status quo – remaining part of the UK. Yet, given these parties' strong pro-EU stance, this is likely to change, especially given that they are neutral when it comes to nationalist-unionist politics.

Economic security has always been a reservation to a united Ireland for many in NI (including nationalists), as NI has been heavily reliant on the British exchequer. However, a recent [report](#) has claimed that over seven years, the unification of Ireland could benefit the island of Ireland by EUR 23.5 billion, while a hard Brexit could cost the island up to EUR 42.5 billion. Additional evidence that a united Ireland would improve the island's economy could increase support for the reunification of Ireland.

What Lies Ahead?

The Irish border issue was rarely discussed during the referendum campaign and when it was, it was often downplayed. Boris Johnson went so far as to [claim](#) the Irish border would not be affected by Brexit. Immigration and sovereignty, the two issues of great importance to people in England, were prioritised. England dominates the UK population, totalling 55 million people, while the rest of the country has just 10 million inhabitants.

As a result, despite the UK set to leave the EU on March 29th 2019, it remains unclear what lies ahead for the Irish border. If the withdrawal agreement is rejected by Parliament on January 15th, no deal and a return of a hard border looks increasingly likely. While its economic consequences are surely to be negative, in a more localised context of the UK and the island of Ireland it comes across as relatively more important that the Good Friday Agreement could be undermined. While local politics remains paralysed, the dramatic reduction in sectarian violence resulting from the Agreement cannot and should not be ignored. Finally, as argued above, the hardening of the border could undermine the integrity of the whole of the UK.

Even if May's deal passes and the no-deal scenario is avoided, it remains uncertain how the Irish issue is to be approached. The UK would have to maintain their commitment to the backstop, even if it would be permanent as confirmed by the UK's Attorney General, Geoffrey Cox, who has [told](#) MP's that the UK were 'indefinitely committed' to the Irish backstop.

Given that this situation would be worse than staying in the EU, as has been admitted even by ardent Brexiteers, the UK could stop Brexit altogether, especially since uncertainty about Brexit goes far beyond the Irish issue. Indeed, the European Court of Justice recently ruled that the UK could cancel its decision to leave the EU. For this to happen, however, there would need to be another referendum. While by no means an easy path, and highly likely to further stir divisions in the UK, this is perhaps the only way to remove the uncertainty regarding the Irish border and other issues. What's more, the electorate would now be better informed on the potentially devastating impact of Brexit on the Irish border, not to mention the UK economy.

Trade, Innovation, Productivity

Germany may have entered a technical recession in 2018 H2.

According to the press release that Germany's Federal Statistical Office published on Tuesday, the country's industrial production dropped by 1.9% in November, while the October reading was revised down to -0.8% (m/m, seasonally adjusted). The November slump, at -4.7% y/y, is the largest one since December 2009. Given these results, the German economy runs the risk of recording a negative growth in 2018 Q4, which, coming at the heels of a -0.2% q/q dip in 2018 Q3, would mean that the country entered a technical recession (two consecutive quarters of economic downturn). The poor results are driven by the tensions in global trade, which have hit German exporters, new emission standards, which keep auto producers busy with adjustments, and calendar effects, which saw many employees take advantage of long weekends. German troubles, if they persist, bode ill for Poland, which is strongly linked to its Western neighbour by way of value chains and exports (Germany was the destination of 27.5% of Polish exports in 2017).

Labour Markets and Environment

The Polish Passport's Strength in Comparison

It is not just the colours of the national flag: Poland and Monaco share one more common feature – the two countries' passports have the same strength. According to the latest Henley Passport Index, passports of Poland and Monaco are on the 15th place globally compared by the number of destinations their holders can access without a prior visa. Japan is on the first place, followed by Singapore, South Korea, France and Germany. According to its authors, the ranking shows increased visa liberalisation and travel freedom in the world as a whole. In the 2019 report that accompanies the ranking, Henley&Partners' experts describe briefly the major global and regional mobility trends, including wealth, talent, forced and climate migration. The ranking and the full report can be accessed [here](#).

Macroeconomics and Public Finance

Poland's fiscal deficit in 2018 is expected to be record-low.

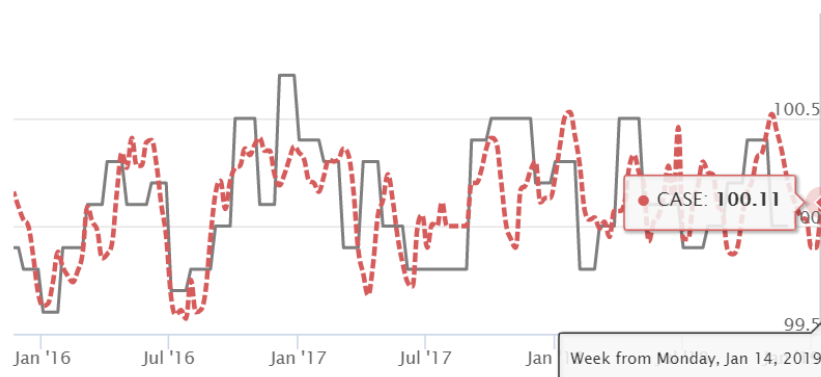
The Polish Minister of Finance Teresa Czerwińska stated that the 2018 state budget would close with the deficit below PLN 15 billion, much less the limit set in the Budgetary Act at PLN 41.5 billion and the 2017 deficit of PLN 25.4 billion. The general government deficit is expected to decrease to 0.5% of GDP in 2018, compared to 1.7% in 2017 and 2.3% in 2016. One important factor behind these numbers is the income taxes revenue, which are expected to grow by roughly 16% (PIT) and 13% (CIT) compared with 2017. These numbers look particularly well given the fact that the central bank did not transfer any funds to the budget in 2018, whereas in 2017 and 2016 it transferred PLN 8.7 and 7.9 billion, respectively. This notwithstanding, the results are not impressive compared to other EU Member States, many of which are expected to see budget surpluses. In 2017, 13 EU Member States recorded surpluses, and this year the number could be even higher. The final results of the central budget should be released at the end of January, and the results recorded by the general government will most likely be published in early April.

The Weekly Online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly. For more information on our weekly online CASE CPI, please visit: <http://case-research.eu/en/online-case-cpi>.

The first Online CASE CPI results of 2019 show that average prices did not change significantly since December, having increased only by about 0.1%. However, the numbers suggest that we may expect more considerable increases of the price index within the coming weeks – mostly due to the reversal of the trend in the *Fuel* category and continued price increases in the *Food and Beverages* category (a 0.8% increase during the last month). Historically, prices (in monthly terms) of the last category start to fall around March-April.

Our Weekly Online CASE CPI



Online CASE CPI (- - - -) vs GUS CPI (—)

Monthly CASE Forecasts for the Polish Economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, and the CPI.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2018	4,6	4.3	6,7	4.5	2.1
2019	3.5	3.6	3.3	3.8	2.3

	Nominal monthly wages	Merchandise exports (USD, bn)	Merchandise imports (USD, bn)	Merchandise trade balance (USD, bn)	CA balance (USD, bn)
2018	4.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

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