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## Knowledge Exchange Seminar Series (KESS)

### **Making sense of Brexit's challenges to Economic Citizenship**

**Dr Leslie Budd**

Department of Public Leadership and Social Enterprise (PuLSE)

Faculty of Business and Law

The Open University

[leslie.budd@open.ac.uk](mailto:leslie.budd@open.ac.uk)

#### **Introduction**

In economics, the era of European economic integration was underpinned by a well thought out theoretical literature. In a sense theory preceded practice, but Brexit poses an analytical challenge as there is no well worked out theory of European economic (dis)integration. For a general audience Brexit is a case of practice running ahead of theory. In such a situation "off the shelf" textbook solutions are not available: instead judgment is required on the impact of context.

The fact that such a profound economic change as Brexit, involving as it does some irreversible impacts, rests on such uncertain foundations provides a major analytical as well as policy challenge to the UK as a whole and Northern Ireland (NI) in particular. NI as an economy suffers from a magnified version of the UK's productivity woes. So in the case of NI the supply-side challenges associated with Brexit has the potential for a magnified economic impact. For example, the structure of NI, with a greater dependency on public spending and agriculture than the rest of the UK, has dangers of magnification. This is also

compounded by the size structure of Northern Ireland firms, that are more frequently family-owned than the rest of the UK.

Managing the process of the UK exiting from the European Union (EU) is one of the most difficult issues for the United Kingdom. In the case of NI it is the most complex and challenging one of all the UK territories. It is the only part of the UK with a contiguous border with another EU Member State that is also a member of the Eurozone. The benefits include an all-Ireland single market; the second largest market for NI trade; close cross-border Foreign Direct Investment (FDI) and economic co-operation; and, a common travel area. If the NI economy is not to be damaged and its economic citizenship and governance undermined permanently, a bespoke Brexit agreement may be an imperative. This case rests upon analysing the alternative scenarios as club goods and proposing the most efficacious one for NI.

The challenge for academics, policy maker and practitioners is to firstly, analyse the composition, performance and trajectory of the NI economy and identify the likely impacts of Brexit in the medium-term. Secondly, utilise the large and dominant Agri-Food sector, that is more spatially distributed than other sectors to exemplify the potential consequences of Brexit. Thirdly, examine how border between the two parts of Ireland becomes a socio-economic beyond a physical one. In assessing how economic citizenship and governance will be altered across the whole of Ireland, the key question is what will be the appropriate forms and their spatial settings will emerge. In particular what impact will the alternative club goods arising from Brexit will have on a changed citizenship and governance environment.

### **Misunderstanding Modern Trade in the Global Economy**

The EU Referendum and US Election demonstrated ignorance by politicians and commentators (on all sides) and about modern economies and trade unchallenged communication to public. Economic globalisation first driven by trade is followed by Foreign Direct Investment (FDI). FDI enables Global Production Networks (GPNs) and thus Global Value Chains (GVCs) with global supply chains (GSCs) providing the link between GPNs and GVCs with the latter now being drivers of global trade with 60% of EU trade being intra-firm. Supply chains go back centuries, which today are variants of commodity chains. A commodity chain is: *“a network of labour and production processes whose end result is a finished commodity”* One of the accounts of early commodity chains concerns shipbuilding between 1590 and 1790 in Europe in which the production of inputs changed. Like today's supply chains, the production of these inputs was differentiated operationally and geographically. From C17th there was a marked specialisation in the building of naval and merchant ships, thereby creating new variants of commodity chains.

The international trade theorist, Richard Baldwin, distinguished three periods of globalisation that he characterises as unbundlings.

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1. *Pre-Globalized World and Globalization's First Unbundling:* With easier international shipping, more people bought goods from faraway places, while shipping got cheaper, the costs of moving ideas and people fell much less, clustering in wealthier industrial North creating poorer South, from 1820.
2. *Globalization's Second Unbundling:* From 1900, the information and communication technology (ICT) revolution radically lowered the cost of moving ideas. This launched next phase, involving the international separation of factories. The *GVC Revolution* redrew the international boundaries of knowledge. With industrial competitiveness defined start of GPNs rather than national boundaries
3. *Next Big Thing: Globalization's Third Unbundling:* If face-to-face costs plunge in the way coordination costs have since the 1990s. Two technological developments might provoke such a plunge. *First* tele-presence technologies enabling the sharing of "brain services" as substitute for cross-border movement of labour. Second, "tele-robotics" as substitute for cross-border manual services with individuals operating robots in one place managing tasks in another. GPNs connected by GVCs crucial for transition from 2<sup>nd</sup> to 3<sup>rd</sup> Unbundling to sustain GVCs;

*GPNs are the globally organized networks of interconnected functions and operations of firms and non-firm institutions through which goods and services are produced, distributed, and consumed. A key concern of GPN analysis is to explore how the nature of these complex networks affects processes of economic development in the various territories that they interconnect.* In promoting cross-border trade, within firms and between them and consumer, supply chains create the opportunity for the Global Value Chains (GVCs) to be realised that are now the major driver of economic activities across national borders;. GPNs link FDI to GVCs and international trade increasingly intra-trade. Consequently as distance doubles, trade halves thereby creating incentives for the development of Regional Trade Area, for example the EU. In the case of Northern Ireland, its largest twenty companies are foreign-owned that are part of GPNS and GVCs underpinned by supply chains, covering a number of key sectors. As a result there is a high degree of cross-border flows and co-operation. These factors underpin the contention that the Island of Ireland can be views as a single market, that Brexit would threaten.

## **Towards Economic Citizenship**

The economic role is characterised by three functions, that create the conditions in which for citizens to increase their socio-economic welfare.

*Allocation;* Combating market failure through the optimal provision of social goods and the creation of technological and pecuniary externalities;

*Distribution:* Combating the non-optimal distribution of income and wealth using the tax and benefit system. The provision of merits goods and use of the public budget also form part of this role;

*Stabilisation:* Arises from macroeconomic policy. Governments use fiscal and monetary policies to influence desired rate of growth, employment, price stability and terms of trade

Economic citizenship is defined as the inclusion of citizens in the allocation, distribution and stabilisation of resources to enhance their socio-economic welfare and well-being in the territories they inhabit and shape. In this context, governance is defined as the process and practice of attributing public status to intermediary groups between government and civil society (that includes the market) to deliver legitimate and accountable policy outcomes for the interest groups they represent. The Agrifood sector is emblematic and crucial in assessing and investigating in detail the consequences of Brexit. This is a given because of its significant position in respect of trade and FDI in the island of Ireland; income and employment; spillovers into other economic sectors, and, its key position in balancing socio-economic welfare between the rural and urban economy in NI. Moreover, the supply chains underpinning the Global Value Chains (GVCs) of this sector challenge any utility of re-asserting a physical border between the two parts of Ireland. In short, the economic consequences of Brexit are potentially even more complex in NI case because it shares weaknesses with the UK, magnified versions of UK problems and problems unique to the region.

The Great Unravelling of the global economy since the Global Financial Crisis (GFC), reinforced by the imposition of austerity in Europe, has led to a period of apparent fracture and shock. In this environment, the devolution and decentralisation of governmental powers, particularly in the United Kingdom, represent some mediating forms of government and governance in order to re-balance the most centralised economy in the developed world. This territorial intermediation is not sufficiently developed or embedded, however, to mitigate the potential shocks associated with decision of the United Kingdom (UK) to leave the European Union (EU) following the Referendum. The current interregnum at the Northern Ireland Assembly creates the danger of undermining the benefits of decentralisation, whose benefits tend to be greater potential growth and equality in an economy

### **Can the complexities of Brexit be made sense of?**

Brexit appears to be treated as a mono-causal event in some accounts in which the process of leaving should be straightforward enough, given political will and authority. By the same token, the Leave Vote result is seen by some as merely as a factor of xenophobia combined with the dissatisfaction of people and places left behind by the European Union's (EU) globalizing modernity. The EU may have crystallized as the emblem of the *status quo* of out-of-touch political elites who imposed lower real wages and worse socio-economic welfare through austerity.

Yet the electoral geography of Brexit is more complex as is the occupational, gender and age differences. In particular, the voting patterns of Brexit showed up sharp divisions between the territories of the UK in which two devolved nations: Northern Ireland and Scotland voted to remain in the EU. How do we unpick these apparently rational but contradictory forces in respect of how processes of citizenship and

systems of governance can mediate and mitigate the impact of Brexit on territories and communities that been subject to socio-economic shock and a sense of political anomie?

Northern Ireland represents a special case in two respects. Firstly, it is the only part of the UK with a contiguous border with another EU Member State that is also a member of the Eurozone. The benefits include an all-Ireland single market; the second largest market for NI trade; close cross-border Foreign Direct Investment (FDI) and economic co-operation; and, a common travel area. Secondly, following the Good Friday Agreement of 1999, that marked the end of internecine conflict, a power sharing agreement between the major political parties has been in place. This agreement has permitted a sustainable but often fragile form of government and created the conditions for more engaged citizenship in the governance of this devolved nation. Moreover, the role of the Republic of Ireland in the Good Friday Agreement ensures that another EU Member State has a direct interest in the direction of the economy and polity of its neighbour. As a result, the border question is crucial with regard to the degree of cross-border economic co-operation and integration. Given this complexity a bespoke Brexit agreement may be an imperative if the NI economy is not to be damaged over the medium to longer term. The attendant consequences for economic citizenship and governance possible being undermined permanently are central to this analysis. The consequences include the potential break up of the UK, that to date has tended to be overlooked in much of the analysis with regard to the territorial implications.

### **Potential issues to be investigated**

Investigating consequences of Brexit for economic citizenship and governance in Northern Ireland. To date, there has been little published work on the direct impact of Brexit on the economy of Northern Ireland. Most of the analysis attempts to decompose the UK impacts to the appropriate territorial scale. A starting point for this research is to look at the different post-Brexit trade options as a series of club goods that impact on sectors differently. Club goods are a form of collective goods that unlike public goods are non-rival in consumption but excludable. That is, one has to have club membership to access them, whilst non-members are excluded. As more people join the club the costs of membership decline but so does the enjoyment of the facility as congestion approaches. Thus, there is an optimal size where the cost of access equals the cost of restricting membership. This is a novel approach for examining the impact of the various trade options, following Brexit, on offer. The strong links between trade and Foreign Direct Investment (FDI) are crucial with respect not only cross-border co-operation but also the strategic direction of economic policy in both parts of Ireland. In particular, the harmonisation of Corporation Tax (CT) from April 2018, as a central discourse of attracting FDI in key sectors, may now be redundant depending upon which Brexit club good will be offered. The essential issue is how the different trade options will impact upon the key sectors that the Northern Ireland Economic Strategy and the Programme for Government identifies a number of key sectors, known as the 'Matrix' sectors, including the Agri-Food. In 2015, the Agri-Food sector accounted for 3<sup>1</sup>/<sub>2</sub>% of Gross Value-Added (GVA) and 5.5% of employment in Northern Ireland. In the Republic of Ireland (ROI) it accounted for 7.8% of

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GVA and 8.6% of employment in the same year (There is a high degree of cross-border co-operation that create significant spillovers in terms of demand for machinery and business and financial services, as well as research and development and establishing best practice in sustainability. Consequently, the impact of Brexit on this sector will be significant, especially in two essentially rural economies and for whom the border question is fundamentally irrelevant. The potential damage to this key sector from Brexit has profound implications for economic citizenship but also forms of economic governance, for example industrial policy, to which the 'Matrix' sectors are central. The proposal corresponds directly to the priority area for analysing the socio-economic impact of Brexit and future trade arrangements. But is indirectly to citizens' expectations on Brexit outcomes with respect to how economic citizenship may change in Northern Ireland in regard to the ROI and the UK. The subsequent governance issues are complex and challenging, whose political ramification may be very challenging and the outcome ultimately unwelcome but necessary. Making sense of Brexit in regard to Northern Ireland, as well as the ROI, can only start with the explicit recognition by all parties that Ni with respect to the Island of Ireland, the UK and the EU is a special case. Failure to understand this apparent fact is likely to damage economic citizenship and weaken related governance over the longer term

