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# The New Brexit Protocol

**A revised approach to Northern Ireland will lower trade tensions in Europe.**



For some, the process of the U.K.'s departure from the European Union (EU) has been a little like taking some of the eggs out of an omelet. For others, Brexit has simply been a nightmare. However, this week's developments present a glimmer of hope that the Brexit saga may finally move on from a state of confusion to a path toward conclusion.

One of the thorniest issues created by Brexit surrounded Northern Ireland, which has substantial links both to the rest of Britain and to the Republic of Ireland. The former is not in the EU; the latter is. Terms intended to recognize this standing were negotiated carefully, but the British government under Boris Johnson essentially overrode them last year. This created great friction between London and Brussels.

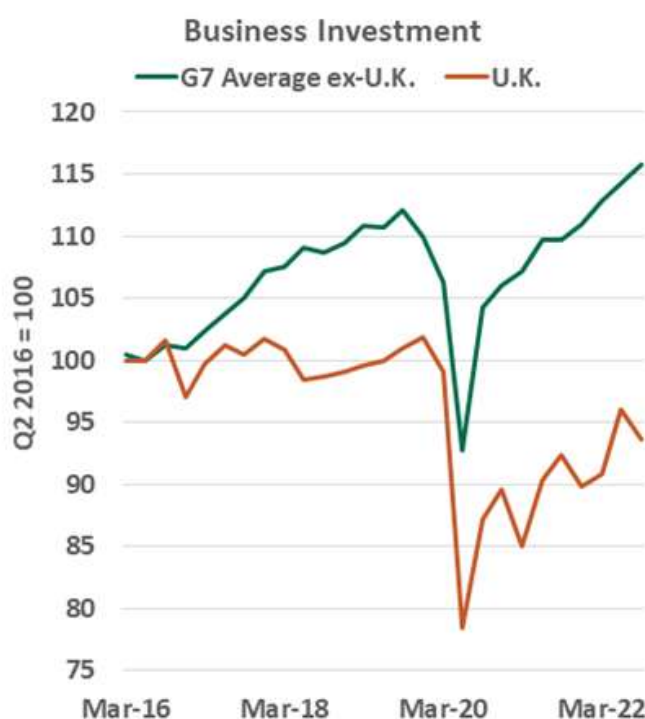
Late last month, under the leadership of current prime minister Rishi Sunak, the U.K. and the EU began working toward a deal to reform the contentious Northern Ireland protocol. The new "Windsor Framework" will split goods entering Northern Ireland from Britain into two tracks: a green lane for goods to be sold in Northern Ireland and a red lane for products destined for the EU. Goods passing through the green lane will not be subjected to EU

customs processes. EU checks and paperwork will remain in place for products going through the red lane. The deal also **addresses** concerns on customs, agri-food, medicines and taxes. The new framework is a welcome development. The direct boost to Britain's economic fortunes will likely be minor, but the framework eliminates the risk of a trade war between the U.K. and the EU. It also sets a course for improved post-Brexit ties and future trade negotiations, which might reduce the economic drag that the U.K. has experienced since committing to leave the EU.

Brexit has proven to be highly disruptive for the British economy. It has created barriers to trade and cross-border mobility, causing problems for supply chains. Goods entering the EU from the U.K. have been subject to new customs declarations, rules of origin, product safety standards and inspections. These checks have contributed to additional costs and delays for businesses.

### The Windsor Framework has eased fears of a trade war.

Trade and investments have suffered, falling far behind the increases seen in other major advanced economies. A 24% fall in the value of the pound since the vote has failed to provide any boost to the U.K.'s competitiveness. Trade as a share of gross domestic product (GDP) in the U.K. declined 12% over the last three years, two and a half times more than any of the world's largest developed nations. British export volumes are still 3% below their pre-COVID levels compared to a 4% increase seen in other major advanced economies since 2019.



Sources: Bloomberg, OBR

Brexit halted business investment. After growing over 40% between 2010 and 2016, investment stagnated in the four years following the 2016 public vote. Britain is now the only major developed economy with its GDP still languishing below 2019 levels. Services have also

suffered from Brexit. According to Aston University estimates, Brexit shrank the U.K.'s service exports by £113 billion between 2016 and 2019.

More recently, U.K.'s economic woes have been compounded by a series of macroeconomic and policy challenges. Inflation has been hovering around multi-decade highs in recent months, squeezing households' purchasing power. A significant housing market correction is underway amid rising mortgage rates. Public sector workers have been on **strikes** over better pay with limited fiscal room to fulfill their demands. These problems have no easy or rapid solutions.

Brexiters had promised to "take back control," a pledge that stands far from fulfilled. Over seven years of Brexit, the U.K. has struggled to keep things under any control. The Windsor Framework is a promising development as Britain tries to get a grip on its economic future.



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