Economic Effects of the US Trade Policy Changes on Northern Ireland's Trade[1]

Iulia Siedschlag[a,b,*] and Juan Durán[a,b]

[a]Economic and Social Research Institute Dublin
[b]Department of Economics, Trinity College Dublin

Non-Technical Summary

Research and Policy Context

The United States (US) is an important trading partner for Northern Ireland's exports and imports. The increased trade tariffs on US imports from all countries implemented by the Trump Administration are likely to impact directly on Northern Ireland's trade with the US as well as on Northern Ireland's trade with other countries via indirect effects propagated through international production and trade linkages. Given the high sectoral concentration of Northern Ireland's exports and imports, sector-specific effects are likely to vary greatly reflecting the variation in the response of sectoral trade flows to changes in tariffs.

Against this background, this research paper examines the potential effects of the increased tariffs on US imports on Northern Ireland's trade with the US, Great Britain, Ireland, the rest of the EU and the rest of the world by considering simultaneously the direct impact on trade flows and the indirect effects coming through international production and trade linkages. In addition to overall effects, the research also examines effects on Northern Ireland's trade by sector considering the potential different trade responsiveness to tariffs by sector. A particular focus of the analysis is on impacts of differential tariffs applied to US imports of goods from Northern Ireland and Ireland and related challenges and opportunities for exporters on the island of Ireland.

The analysis uses a modern Quantitative International Trade Model accounting for trade in final goods as well as intermediate inputs. This research paper builds on and extends previous analysis by the Department for the Economy Northern Ireland examining the direct effects of changes in

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* Corresponding Author: iulia.siedschlag@esri.ie

the US trade policy on Northern Irelands' trade (Department for the Economy Northern Ireland, 2025).[2]

To analyse the potential direct and indirect effects of the increased US trade tariffs on Northern Ireland's trade, the following four counterfactual scenarios are simulated with respect to a situation of no tariff changes since 2019:

- **Scenario A:** potential effects of increased US trade tariffs announced on 2 April 2025.
- **Scenario B:** potential effects of tariff rates after the ruling of the Supreme Court of the United States (SCOTUS) on the 20th February 2026 which struck down the IEEPA 10% floor and country-specific top-up tariffs.
- **Scenario C:** potential effects of tariff rates post-SCOTUS ruling under Section 122 at 10%.
- **Scenario D:** potential effects of tariff rates post-SCOTUS ruling under Section 122 at 15%.

Simulations reflect long-term reallocation of production and trade and should be interpreted as upper-bound effects incorporating general equilibrium adjustments across sectors and countries given the changes in US trade policy.

Key Findings

The following key findings emerge from the counterfactual analysis:

Under Scenario A – increased trade tariffs imposed on 2 April 2025, compared to a situation of no tariff changes since 2019, estimated long-term export flows from Northern Ireland to the US are lower by 14%, while Northern Ireland's import flows from the US decrease by 12%. Northern Ireland's bilateral trade flows with Great Britain, Ireland, and the rest of the EU countries are estimated to increase slightly, reflecting trade reallocation across import sources and export destinations.

Sector-specific effects. The counterfactual estimates of exports indicate that the sectors with the largest positive contributions to the change in total exports are electrical machinery and mining and quarrying, sectors facing relatively low increases in US tariffs. The high responsiveness in the mining and quarrying sector is explained by the high trade elasticity in the model, although exports in this sector account for only a small share of Northern Ireland total exports at baseline. In contrast, the most significant negative contributions to the change in total exports occur in

[2] A summary of the main findings of this analysis is available from ['The Direct Economic Impact of the New USA Tariff Regime on the Local Economy', Department for the Economy]

chemicals, other transport equipment and other manufacturing. These sectors had higher initial export shares, higher input-output linkages, and faced above-average increases in US tariffs. The counterfactual estimates of imports indicate that the sectors with the largest positive contributions to the change in total imports are petroleum and other manufacturing, while the highest negative contribution occur in electrical machinery manufacturing, a sector which is highly interrelated with transport and other manufacturing sectors where export volumes and input demand fall.

Welfare effects. Relative to the baseline scenario with no tariff changes, Northern Ireland's welfare, which captures how changes in trade costs affect a country's purchasing power through cheaper access to foreign goods and improved export opportunities, declines by almost 1% and is primarily driven by the decline of terms-of-trade (-0.90%) while the change in the volume-of-trade is marginal (-0.04%). These results are consistent with Northern Ireland being a small open economy and a price-taker on world markets. The estimates reveal an important heterogeneity with respect to the contribution of sectors to the aggregate welfare effect. The most important contribution to the deterioration in the terms-of-trade is driven by agriculture and food manufacturing, sectors where substitution across suppliers is relatively easy. The negative volume-of-trade effect is mainly driven by sectors which are highly interconnected in international production networks such as textiles, metal products, and electrical machinery.

Further counterfactual simulations corresponding to the most recent changes in US trade tariffs following on from the SCOTUS ruling on the IEEPA tariffs indicate potential lower declines of Northern Ireland's bilateral trade with its main trading partners, consistent with the lower trade tariffs considered in the respective scenarios. Relative to a situation of no tariff changes, export flows from Northern Ireland to the US in the long-run are estimated to be lower by 5% in Scenario B (post-SCOTUS ruling tariffs without Section 122 surcharges) and lower by 12% and 14% in Scenario C (post-SCOTUS ruling tariffs under Section 122 at 10%) and Scenario D (post-SCOTUS ruling tariffs under Section 122 at 15%), respectively. Northern Ireland's imports from the US follow a similar pattern, with a small increase of 1.5% in Scenario B and much larger decreases, by 17% and 23% in Scenario C and Scenario D, respectively. As is the case in Scenario A, counterfactual estimates in Scenarios C and D indicate trade reallocation towards Great Britain, Ireland, and the rest of the EU.

Sector-specific effects. As in the case of counterfactual estimates in Scenario A (US trade tariffs before the SCOTUS ruling), the most affected sectors are chemicals and other transport equipment in terms of export flows, and manufacturing of electrical machinery in terms of import flows.

The trade tariffs deals between the US and the UK (US-UK Prosperity Deal of 8 May 2025) and the US and EU (Cooperation Agreement on Fair and Balanced Trade of 27 July 2025) result in a **tariff divergence on the island of Ireland**: exported goods from Ireland to the US will be subject to 15% tariffs while exported goods to the US from Northern Ireland will be subject to 10% tariffs stacked on existing Most Favoured Nation (MFN) tariffs. Whether the UK or EU tariffs for exports of goods from Northern Ireland to the US are more advantageous depends on specific products/industry.

Policy Implications

Taken together, the results of this research suggest that the recent changes in the US trade policy are likely to affect negatively Northern Ireland's trade with the US. In the long run, a reallocation of production and trade across sectors and countries is expected resulting in increased bilateral trade between Northern Ireland and Great Britain, Ireland and the rest of the EU.

While the US tariffs imposed after the SCOTUS ruling reduce the economic impact of these changes in the US trade policy on Northern Ireland's trade, uncertainty about further tariff changes is likely to impact negatively on businesses' decisions on investment, input sourcing and contract pricing. While these decisions are taken at company level, we suggest that a range of policy measures could assist Northern Ireland's enterprises to mitigate these risks, enhance their resilience to trade shocks and create new growth opportunities through access to new international markets. Such policy measures could include:

- **Mapping of Northern Irelands' supply chains** and identifying export and import dependencies in strategic sectors in the context of geopolitical shifts.
- **Developing frameworks and data-based tools** for anticipating and monitoring trade vulnerabilities and possible critical supply chain disruptions.
- **Market diversification** – designing tools available to enterprises, particularly those exposed to increased US trade tariffs, to explore and enter in new export and import markets.