CROSS-BORDER ECONOMIC RENEWAL
Rethinking Regional Policy in Ireland

John Bradley and Michael Best
March 2012
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<table>
<thead>
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<th>Acronym</th>
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<tbody>
<tr>
<td>ABT</td>
<td>An Bord Trachtala (Irish Trade Board)</td>
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<tr>
<td>BAA</td>
<td>British Airports Authority</td>
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<tr>
<td>BDZ</td>
<td>Border Development Zone</td>
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<tr>
<td>CAD/CAM</td>
<td>Computer Aided Design/Manufacturing</td>
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<td>CBI</td>
<td>Confederation of British Industry</td>
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<td>CCBS</td>
<td>Centre for Cross Border Studies</td>
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<td>CEE</td>
<td>Central and Eastern Europe</td>
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<tr>
<td>CIP</td>
<td>Census of Industrial Production</td>
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<td>CNC</td>
<td>Computer Numerical Controlled (tool)</td>
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<tr>
<td>CSO</td>
<td>Central Statistics Office (Ireland)</td>
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<td>DETI</td>
<td>Department of Enterprise, Trade and Investment (Northern Ireland)</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>EMU</td>
<td>Economic and Monetary Union</td>
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<td>ESRI</td>
<td>The Economic and Social Research Institute (Ireland)</td>
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<td>EU</td>
<td>European Union</td>
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<td>FAME</td>
<td>Financial Analysis Made Easy (database)</td>
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<td>FDA</td>
<td>Food and Drug Administration (USA)</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>GVA</td>
<td>Gross Value Added</td>
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<td>HSCNI</td>
<td>Health and Social Care (Northern Ireland)</td>
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<td>IBEC</td>
<td>Irish Business and Employers Confederation</td>
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<td>ICLRD</td>
<td>International Centre for Local and Regional Development</td>
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<td>IDA</td>
<td>Industrial Development Authority/Agency (Ireland)</td>
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<td>IDB</td>
<td>Industrial Development Board (Northern Ireland)</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>INI</td>
<td>Invest Northern Ireland</td>
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<tr>
<td>INTERREG</td>
<td>EU-funded programme that helps Europe’s regions form partnerships</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>LFS</td>
<td>Labour Force Survey</td>
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<td>MNE</td>
<td>Multi-national Enterprise</td>
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<td>NACE</td>
<td>European Classification of Economic Activities</td>
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<td>NDP</td>
<td>National Development Plan</td>
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<td>NESC</td>
<td>National Economic and Social Council (Ireland)</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>NI</td>
<td>Northern Ireland</td>
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<td>NIEC</td>
<td>Northern Ireland Economic Council</td>
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<td>NIERC</td>
<td>Northern Ireland Economic Research Centre</td>
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<td>NUTS</td>
<td>Nomenclature of Territorial Units for Statistics (EU)</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>ONS</td>
<td>Office for National Statistics (UK)</td>
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<tr>
<td>OP/ROP</td>
<td>Operational Programme/Regional Operational Programme (EU)</td>
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<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
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<td>PLC</td>
<td>Product Life Cycle</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<td>RCA</td>
<td>Regional Competitiveness Agenda (published by Forfas, Ireland)</td>
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<td>REP</td>
<td>Regional Employment Premium</td>
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<td>RFID</td>
<td>Radio Frequency Identification</td>
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<td>SIC</td>
<td>Standard Industrial Classification</td>
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<td>SITC</td>
<td>Standard International Trade Classification</td>
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<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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<td>SWOT</td>
<td>Strengths–Weaknesses–Opportunities–Threats</td>
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<tr>
<td>TQM</td>
<td>Total Quality Management</td>
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<tr>
<td>UU</td>
<td>University of Ulster</td>
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<tr>
<td>VAT</td>
<td>Value–Added Tax</td>
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<tr>
<td>WARR</td>
<td>Wrocławska Agencja Rozwoju Regionalnego (Poland)</td>
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<td>WCM</td>
<td>World Class Manufacturing</td>
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Preface and Acknowledgements

The present work is based on a recently completed research project carried out for the Centre for Cross Border Studies and generously supported by the Special EU Programmes Body under the INTERREG IVA programme. It had been conceptualised during a slightly earlier, more prosperous era and the original project title – Normal Business Restored: reviving the border region economy in a new era of peace and devolved government – took on new, challenging meanings when the true horror of the post-2008 economic crash, North and South, became clear.

During the execution of the work we were assisted by many kind people. First and foremost we thank the CCBS Director, Andy Pollak, who supported us throughout the entire project and put up with our idiosyncratic and contrarian views with patience and a tolerance that was saintly. The staff of the CCBS provided excellent support in organising our project cross-border conference in November, 2011, in particular Eimear Donnelly whose professionalism made the entire event very enjoyable and a great success. Mairéad Hughes kept our finances in good order and took on many onerous administrative burdens.

As part of the project that studied the Irish border region we collaborated with the Wroclaw Regional Development Agency (WARR) who examined the Polish-German border with respect to cross-border shopping, productive structures in the border region and Polish-German tourism flows across their common border. Only a small fraction of that research found its way into this report, since one of the WARR findings was that there are only limited similarities between the Irish border situation and the Polish-German border. However, it is hoped that future research will deepen those findings and serve to illuminate the Irish situation and place it more firmly in a wider comparative European perspective. We gratefully acknowledge the work of WARR, and the fruitful collaboration with Professor Janusz Zaleski and his team in Wroclaw.

We were lucky to have the services of a great Steering Committee* during the two years of the research. They gave generously of their time and of their expertise, and we learned much from them. In particular, we acknowledge the assistance of Dr Eoin Magennis of InterTrade Ireland and Philip McDonagh for generously sharing their knowledge and expertise with us.

One of the most difficult tasks during the research was to set up the series of individual visits to enterprises in the border region. Aidan Gough, Dr. Eoin Magennis and Bronagh Morgan of InterTrade Ireland used their good offices to persuade businesses to meet us. Without their active assistance we would have had little chance of visiting so many firms and of being received so warmly.

The enterprise visits were the real highlight of our work, and the generous individuals who took precious time out to meet us and talk openly about their business experiences and challenges are individually mentioned in Chapter 10, where we document our findings. Their conversations with us, and their guided tours through their plants, taught us much about the real work of entrepreneurship and served to generate many valuable insights into the world of business in the border region. We are eternally grateful to them.

We also thank the people who took an active role in our project conference, held in Cavan on November 17–18, 2011. The chairs – Aidan Gough, Andy Pollak, Michael D’Arcy, Reg McCabe and Liam Connellan – made important contributions to the conference discussions, as well as ensuring that the crowded conference agenda ran smoothly. The invited participants – Gerhard Untiedt, John Watt, Walter Watson, Pat McAdam, Paul Shortt, Paddy Tobin, Vincent Reynolds, Catriona Regan and Padraic White – took time out from their busy schedules to prepare presentations that greatly extended and enhanced our own research efforts. The discussants for each conference session – Michael D’Arcy, Edgar Morgenroth, Eoin Magennis and Philip McDonagh – illuminated and enhanced the presentations and provoked active and enjoyable open discussions. Finally, we thank Councillor Sean McKiernan, the Chair of Cavan County Council, for opening the conference and Mr John Perry, TD, Minister of State for Small Business, who entertained and informed us with his address at the conference dinner.

* Celine McHugh (Forfas), Damian McAuley (Invest NI), Graeme Hutchison (DETI), Edgar Morgenroth (ESRI), Colin Stutt (Colin Stutt Consulting), Aidan Gough and Eoin Magennis (InterTradeIreland), Michael Smyth (University of Ulster), Andy Pollak (CCBS).
In preparing this study we took the opportunity of drawing on some earlier historical research that we had carried out for the Forum for Peace and Reconciliation. We thank the Forum Secretary, Wally Kirwan, for permission to use this work in order to set the historical context of the cross-border economy research.

Finally, we stress that all the opinions, views and judgements expressed in this study are our own responsibility.
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Dr John Bradley was formerly a Research Professor at the Dublin-based Economic and Social Research Institute (ESRI) and is an international research consultant in the areas of economic development strategies, with an emphasis on EU cohesion policy in all the member states. He was responsible for the design and implementation of the HERMIN system of models used by DG-REGIO to evaluate the impact of Structural Funds in the member states. He is a specialist on development barriers facing the post-Communist economies of Central and Eastern Europe, and regularly acts as a consultant to the European Commission and to government ministries in the EU and elsewhere.

Professor Michael Best is Professor Emeritus at the University of Massachusetts Lowell and a Fellow of the Centre for International Business and Management, Judge Business School, Cambridge University. He specialises on industrial development strategies, business organisation, technological change, cluster evolution and regional innovation systems. His ‘capability and innovation’ perspective on industrial growth and change is developed and illustrated with enterprise, regional and national case studies in two books: The New Competitive Advantage: The Renewal of American Industry (Oxford, 2001) and The New Competition: Institutions of Industrial Restructuring (Harvard, 1990). Professor Best recently completed a study of the rise and rapid growth of the medical devices industry in Massachusetts that deploys an historical dataset of high tech companies to characterise the forces that drive industrial transitions and the emergence of new clusters.
Chapter 1: A divided and divisive island

1.1 History and economics

The cessation of paramilitary violence in Northern Ireland from October 1994 initiated the removal of a major constraint on the normal conduct of life on this island, both North and South. This welcome development generated interest in the study of how the violence of the previous 25 years (the ‘troubles’) may have hindered growth, diminished welfare and influenced structural change in both economies. The prospect of peace also started to stimulate research into the nature of other constraints on island-wide growth and the extent to which their relaxation might have future beneficial economic consequences in the short, medium and long terms. Indeed, the prospect of positive peace dividends, both of a social and economic kind, was widely anticipated to be an important factor in preserving and consolidating the initially uneasy peace.

History has always been an important element in Irish economic development. Union with Britain during most of the 19th century, at a time when Britain was the dominant world economic superpower, was as economically beneficial to Ireland at that time as being the 51st State of the US might be today. However, the economic partition of the island had occurred almost 70 years before political partition occurred, driven by the conjunction of the Great Famine and the dramatic industrialisation of the north-east region centred on Belfast. Political partition after 1920 left the newly constituted Irish Free State almost bereft of any non-food manufacturing, and the inter-war period was not the most propitious time during which to build an industrial base from scratch. The approach adopted, namely a retreat behind tariff barriers and an attempt at import substitution, was a world-wide phenomenon and Southern policy actions were much praised by Keynes in his famous Finlay lecture (Keynes, 1933). The long overdue switch to an outward orientation from the 1960s was an equally enlightened Southern response to changes in the world economy, according to Harvard’s Jeffrey Sachs in his own Finlay lecture (Sachs, 1994).

A case can be made that one of the legacies of the unhappy history between the two parts of Ireland, and between Ireland and Britain, was an inferior level of economic performance since partition. Indeed, the island as a whole continued to under-perform until well into the 1980s. The usual explanations and excuses stressed factors that appeared to be internal to the two regions (e.g., a lack of entrepreneurial spirit, the small size of domestic markets, a tradition of out-migration, civil unrest, etc). In truth, many of these factors were related to an economic divide of the island that predated political partition by over half a century.

Ireland’s misfortune was that when the late industrial revolution arrived in the middle of the 19th century, it was largely confined to the north-east corner of the island, centred on Belfast. The sundering of the then engineering/industrial North from the agricultural/food processing South destroyed almost all possibility of building intra-island synergies. The centrifugal bonds of identity, tradition and allegiance dominated the weaker centripetal forces of economic rationality. After partition, North–South trade diminished, sources of supply adjusted, and economic planning on the island accommodated grudgingly to partition, even if political rhetoric did not. To a considerable extent, this is the island economy that still presents us with many problems and challenges.

Happily, the previous absence of much North–South collaborative interaction has come to an end and over wide areas of economics, sociology,
business and policy making, Northern and Southern researchers, policy analysts and policy makers are discovering common interests that spring from many shared experiences and the expectation of mutual benefits from deepening cross-border interchanges. Projects supported by the International Fund for Ireland and private sector initiatives, together with the activities of the Forum for Peace and Reconciliation and of the EU (such as INTERREG and the EU Programme for Peace and Reconciliation), gave an early boost to such activities during the lead-up to the Belfast Agreement negotiations by providing generous financial support and encouragement to cross-border interactions, involving review and exploration of every aspect of life on this island. Such interactions have greatly accelerated and deepened since the signing of the Belfast Agreement in 1998 and the subsequent installation of a Northern power-sharing Assembly in Stormont.

Given our understandable preoccupation with present day global and local economic problems, the fact is sometimes overlooked that even if the Northern troubles had never broken out in 1968, the Northern and Southern economies would have faced serious challenges in coping with, and adjusting to, change in the latter half of the 20th century. There can be little shelter or protection for small and peripheral nations and regions from the competitive forces generated by larger more powerful economies in a world of rapid technological progress, increasingly integrated global markets and shifts in the international division of labour. Small economies must perform to the very best international standards and exploit fully all their limited domestic advantages if they are to share the high standard of living enjoyed, for example, by the more advanced EU member states or by the more developed regions of these states.3

From the 1950s the Northern economy faced serious adjustment problems, well before the additional complications caused by the ‘troubles’ from the late 1960s. In particular, there was an urgent need to accelerate the process of restructuring and diversification away from industries that had formed the core of its phenomenally successful 19th century growth, mainly ship-building, linen, and their associated engineering activities. Nor was the situation in the South any less challenging. An overriding necessity was the modernisation of the inefficient, slow-growing, inward-oriented manufacturing sector, that had been heavily protected behind tariff barriers since the early 1930s, and its re-orientation towards export markets and higher quality products.

This already complex and challenging set of restructuring problems was seriously exacerbated by the eruption of violence in the North in the late 1960s. An immediate economic casualty in both regions of the island was tourism, which was heavily dependent on the British market. For example, numbers of British visitors to the South collapsed and the real level of Southern earnings from tourism in 1968 was not to be reached again for twenty years. Tourism in the North suffered an even more catastrophic collapse and is still far below its pre-‘troubles’ potential (Tansey, 1995). The task of attracting foreign direct investment (FDI) to the North became ever more difficult and although Britain continued to be the major source of inward investment, British firms provided a declining share of total manufacturing employment (39% in 1973, but only 22% in 1990). In contrast, the major share of FDI and their associated jobs in the South was provided by the United States, with Britain playing an important but lesser role.

A sizeable fraction of inward investment in the North during the 1960s and 1970s was into ‘mature’ sectors such as textiles and artificial fibres and was attracted mainly by high subsidies and the presence of other associated traditional activities in these areas. However, these new petroleum-based industries proved particularly vulnerable to the massive oil price rises of the mid-1970s, which precipitated plant obsolescence, major closures and job losses. As Northern manufacturing contracted, the public sector grew, bringing pressure on regional public expenditure at a time when the local tax base was also shrinking. After the proroguing of Stormont and the imposition of direct rule in 1972,

3 The term ‘cohesion’ is used in the EU context to denote convergence of standards of living, as usually measured by real income (GDP) per capita. The term ‘convergence’ is used to denote adherence to the Maastricht criteria of inflation, interest rates, borrowing, debt, etc.
any remaining pretence of Northern financial self-sufficiency vanished, and a rapidly rising level of direct subvention was required to keep the region’s economy afloat.

Many of the pressures on the North had direct and indirect parallels in the South. The onset of the world recessions associated with the OPEC I and II oil-price crises during the mid-1970s and early 1980s ushered in a period of much slower and unstable world growth, with a consequential slackening in the world supply of mobile direct investment upon which the South was so dependent. However, as traditional Southern indigenous industries declined, the ability of the South to continue to attract a high proportion of the available inward investment, in particular from the United States, contrasted sharply with the difficulties faced by the North. Not all the differences in North–South behaviour were due to the ‘troubles’, since there were crucial policy differences in the means available to attract inward investment.4

A pattern of public sector growth and increased public sector indebtedness similar to that in the North took place in the South from the mid-1970s, but was eventually choked off and reversed from the mid-1980s, although it grew again in more recent years and made the South very vulnerable when the global and local banking crises hit in 2008.5 Here, the implications of the status of the North as a region within the United Kingdom contrasted sharply with the obligations of sovereign independence in the South, where pressures for fiscal restructuring simply could not be ignored or passed on completely or in large part to a higher-level funding authority. Although the interpretation of the economic impact of the Southern public sector expansion and subsequent fiscal restructuring of the late 1980s is an area of some controversy, nevertheless there are interesting lessons to be drawn from this experience that may apply to the North, should it wish or need to move in the future towards the restoration of greater regional balance within the United Kingdom.

The behaviour of the Northern and Southern economies from the 1960s to the present date is obviously of fundamental relevance to the analysis of the immediate social and economic consequences of an era of post-Belfast Agreement peace. At the very least, any evaluation or quantification of the costs of the past ‘troubles’ can provide insights into the likely continuing benefits of peace. However, since the ‘troubles’ lasted for over twenty-five years, their costs and the most effective unwinding and reversal of these costs were very unlikely to be symmetrical. Many reasons for a likely lack of symmetry could be advanced. For example, the passing of time and the consequences of violence during the past 25 years seldom involved merely variations in the rate of capacity utilization of existing manufacturing plants and businesses. Rather, individual plants and whole sectors were damaged, diminished irreparably or simply ceased trading altogether. The offsetting massive growth of the Northern public sector brought about heavy dependence by the Northern private sector on direct state support of questionable efficiency as well as indirect support through public demand for goods and services that is proving difficult to unwind. Furthermore, skilled emigrants, who left during the earlier years of the violence, developed lives elsewhere and would not always return. More seriously, young people who grew up in the North during these 25 turbulent years may have had their economic life chances permanently impaired by exposure to violence.

Thus, some of the effects of the ‘troubles’ on the Northern economy may be characterised by hysteresis, i.e., a situation where any initial deterioration caused by an adverse shock has a tendency to endure. Neither individuals, firms, sectors nor the overall economy can be guaranteed to bounce back rapidly after the original negative pressures are removed. Nor is the peace process likely to be a zero-sum game over the full 25 year cycle of peace–violence–peace. The benefits of recovery and reconstruction could be less than, equal to, or greater than the damage caused by the

4 There is considerable debate, for example, on how important political factors like the MacBride principles were in deterring American investors from the North (Bardon, 1992: p. 799). Any negative impact would tend to be compounded with more direct ‘troubles’ effects.

5 The Public Capital Programme, which had contracted sharply during most of the 1980s, began to grow again from the early 1990s. The domestic co-financing requirement of the Delors-I, II and subsequent Community Support Frameworks (or Structural Funds) was a key driver of increased public expenditure on the capital side.
protracted violence, depending on world economic conditions and domestic policy choices made in response to the peace.

The point at issue here is that the cessation of violence is just one of many factors influencing the two economies of the island and, in the case of the South, certainly not the major factor. For example, the consequences of peace during a world economic boom would be quite different from the consequences during a world recession. Similarly, the consequences of peace in an island where North and South continue in a kind of separate or back-to-back economic development would be likely to differ greatly from a situation of North–South economic and business policy rapprochement. Hence, economic forces and institutions on the island need to be explored in the widest possible historical, political and social framework, in addition to examining them in the context of a narrow focus on immediate economic changes associated with the transition to peace.

No matter how important we deem the events of the twenty-five years of civil unrest and the subsequent 14 years of operation of the Belfast Agreement to be, a much longer time horizon is needed in order to understand the historical socio-economic processes that operated on this island, and which led to the very different economic development experiences of North and South. The violence that escalated after 1968, and the economic damage it wrought, did not take place in a vacuum. Rather, the unfolding of events was conditioned by historical, political, cultural, and socio-economic factors inherited from the past. We need a better understanding of these factors if we wish to talk about possible future prospects for an ‘island’ economy.

To understand the challenges and opportunities that the era of peace is opening up for the economies of North and South, we need to take a very long time horizon both to examine the past and to envisage the future. This might be thought somewhat unusual in a mainly economic study, since economists tend to place greater emphasis on short-term analysis and forecasting against a background of fixed institutions, specific policy assumptions and a hypothesised external environment. Within any such conventional short-term analytical framework the future seldom deviates more than marginally from the past. Quantitative projections can be run mechanically out into the future, but they almost never capture crucial turning points or the consequences of radical new departures in public policy or private sector behaviour.

Although in this study we will focus mainly on economic issues in our longer term analysis, we are fully aware of the dangers inherent in any simplistic claim that economic factors pre-determine political choices, or are even influential aspects of such choices. What we wish to investigate, however, is the extent to which past economic developments on this island were influenced by such forces as technology, geography, factor endowments, demography, economic and social forces external to the island, or indeed by pure chance. The predominantly political-historical tradition of much research and writing on island developments has tended to down-play these economic aspects. Furthermore, some influential studies may be biased by political points of view, as in the nationalist economic histories of the early part of the 20th century. Formulation of future economic policies will be enhanced by a better understanding of the island economy’s historical experience, an appreciation of the extent to which events are often determined by factors barely under policy control, and the isolation of those crucial areas where domestic policy can indeed enhance competitive advantage. In the words of Seamus Deane:

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6 For example, see McGarry and O’Leary, 1995, (chapter 7) for a stylish and effective demolition job on purely economic explanations of the causes and cures of the Northern ‘troubles’.

7 A study by Cormac Ó Gráda covers the period 1780–1939 and gives central place to economic developments in a wide-sweeping interpretation of Irish history (Ó Gráda, 1994). Jonathan Bardon’s A History of Ulster also integrates economic aspects into his historical narrative (Bardon, 1992). On the other hand, Joseph Lee’s highly critical analysis of the ‘failure’ of Southern development in the 20th century can itself be criticized for its limited and possibly inappropriate international comparisons together with its anachronistic economic perspective (Lee, 1989).

8 Key ‘nationalist’ economic studies of Irish history are those of George O’Brien (O’Brien, 1918 and 1921). Johnson and Kennedy, 1991 provides a concise critical re-evaluation. Nevertheless, the thesis that Ireland’s economic ills are overwhelmingly of British origin continued to have its enthusiastic adherents (Adams, 1995, pp. 181–182).
We stand in servitude to history if we insist on it as an explanation for the future we might have had but won’t have. Freeing ourselves from that, we can begin to anticipate, not remember our future. (Deane, 1984)

1.2 The logic of our analysis

The logic and organization of this study stems from the need to place recent research on the economy of the cross-border region into its proper historical and economic context. The material divides naturally into four main parts. Part I (The Past), comprising chapters 2 and 3, examines and reflects on the past history of the island economies. Part II (The Present), comprising chapters 4 to 8, moves to the post-Belfast Agreement period and deals with the economic issues and challenges that confront policy makers on the island today. Part III (Inside the Border Economy) comprises chapter 9–11 and examines three specific border issues in detail: cross-border shopping, production capabilities in the border economy, and cross-border tourism. Part IV consists of the concluding Chapter 12 and explores possible consequences of policy choices that are currently being made, or which ought to be made, and the likely implications of developments in the world economy over the next decade for the economies of North and South. A comprehensive bibliography concludes the study.

Since our main concern is primarily with the current state and economic future of the cross-border region, the inclusion of the historical material discussed in Part I requires some explanation. In chapter 2 we take a brief historical overview of the island economy over the period 1750–1960, i.e. from the time when the first aspects of what we would now recognise as a modern Irish economy emerged in the early stages of the first British industrial revolution to the period just before the outbreak of the Northern ‘troubles’ in the mid-1960s. This long perspective is not an irrelevant academic indulgence. On the contrary, it is probably only a slight exaggeration to assert that many of the key characteristics of the two regional economies of the island of Ireland in the mid–20th century were clearly discernible by the middle of the 19th century. The subsequent political consequences of this period of massive demographic disruption and regionally skewed economic development were enormous and facilitated the partition of the island economy in 1922. In spite of more recent changes, many key features of that mid-19th century island economy still endure, both in reality and subliminally.

Chapter 3 focuses on the 1960–98 period, during which both regions attempted to break with past patterns of development that had their origins in the 19th century. Here we restrict our analysis to narrower socio-economic issues, having previously outlined the broader historical-economic framework. We examine the evolution of both Northern and Southern economies as they reacted to external world events (the post-war dominance of the USA, the evolution of Europe after the Treaty of Rome was signed in 1957, the OPEC crises and recessions of the 1970s and 1980s, etc.) and to internal socio-economic, demographic and political pressures. In particular, we focus on a few key issues: the behaviour of the private sector (mainly manufacturing, but including agriculture and market services); the growth of the public sector; labour market and demographic developments; public finance problems; competitiveness, trade and North-South interactions; and how attempts have been made to estimate the ‘costs’ of the ‘troubles’ and the possible benefits of the restoration of peace.

The legacy of past history, combined with the lessons of the recent ‘troubles’, placed both regions of the island in a position where some new beginnings were both necessary and feasible in a period of peace and devolved government. Subject to the usual caveats about external world circumstances, both regions seemed set to enjoy better than average economic growth, even in the absence of any change in, or intensification of, North-South economic interactions. In Part II we explore the present state of the island and cross-border economies.

Part II starts with Chapter 4, which reviews how the implementation of the Belfast Agreement in 1998 created a new context for the evolution of the two economies of the island, even if these new opportunities have only been taken up slowly, partially and sometimes grudgingly. In Chapter 5 we step aside from economic facts and real developments and review the kinds of strategic frameworks that are essential if we are to understand how small open economies and their internal regions operate. Why do we need such frameworks? It was Einstein who said that: “It is
quite wrong to try founding a theory on observable magnitudes alone. It is the theory which decides what we can observe.” In other words, facts seldom speak for themselves. If we do not understand the underlying mechanisms that connect disparate facts, we are unlikely to understand the real world. Chapter 6 reviews the international and national context of the island economy while Chapter 7 narrows the focus to the two regional economies of this island. Chapter 8 narrows the focus further to the economy of the cross-border region, this being the area that was most seriously affected by partition, back-to-back development, and civil unrest.

In Part III we take up three specific aspects of the cross-border economy. This is where we try to get ‘inside’ the region, a perspective that is very different from the mainly top–down or ‘outsider’ perspective of Part II. Chapter 9 reviews the phenomenon of cross-border shopping. Chapter 10 turns to the crucial issue of the productive performance and potential of the cross-border region. Chapter 11 examines the role of tourism and how a new form of tourism is arising between both regions of the island.

In the concluding Part IV we turn to the future. Our main focus continues to be on the much disadvantaged cross-border region which emerged into the post Belfast Agreement era ill-prepared and ill-equipped to size all of the new opportunities that the Agreement offered. To address the future of the cross-border region we need to look at regional policy on the island in a new and more flexible way. In our final Chapter 12 we explore ways in which the cross-border region might overcome the problems of peripherality and the legacy of history. We take up three main aspects of what the former Managing Director of the IDA, Padraic White, has called a ‘Border Development Zone’ (or BDZ). The first dimension is spatial, to characterise the extent of the border region economy, defined as the cross-border region where the twin challenges of peripherality and ‘border’ policy fault lines need to be addressed. The second dimension is sectoral, to identify a range of sectors which are uniquely suitable and adaptable for promotion within the Border Development Zone. The third dimension is institutional, to identify the kinds of co-operative policy frameworks and actions that will be needed in the Border Development Zone

if it is to have a greater prospect of participating in island-wide prosperity.

We draw the above three themes together and combine them with discussion of economic governance in order to explain the context for future regional growth on the island. Clearly, both regions of the island currently face different policy influences and pressures and, under most of the possible island political scenarios, these will need to continue to co-exist with, and be overlaid by, any specific stronger framework of North-South policy co-operation and collaboration that may emerge. This is the essential challenge that politicians and policy makers on these islands face as they seek to design mutually agreed economic policy frameworks that are consistent with the aspirations of all people on the island of Ireland.
Part I The Past
Chapter 2: The origins of Ireland’s two economies: 1750-1960

2.1 Introduction

Our objective in this chapter is to review some important aspects of the pre-1960 history of the island, taking the view that the 1960s represented a watershed in both political and economic terms, North and South. Policy action taken in the late 1950s and early 1960s launched the Southern economy onto a radically different development path from that which was historically determined. In the North, policy makers were also forced to face up to the fact that the extraordinary economic successes of the north-east region of Ireland during the middle and late 19th century as well as the first few decades of the 20th century provided a poor foundation for running the late 20th century economy of a region within the United Kingdom. In addition, post-Second World War industrial transition challenges in key traditional Northern sectors were further exacerbated by the events of 1968 and their aftermath.

These more recent developments are still in process and hold out many prospects for improving on the performance of both regions of the island during the 21st century. Later we will address the issue of how modifications to present policies might be used to overcome some of the harm that resulted from the economic divide that occurred in the 19th century, a divide that was later reflected in, and partially drove, the partition of the two Irish regions into separate political jurisdictions after 1920.

We first discuss some crucial events in the evolution of the island economy since the beginning of the first industrial revolution in middle to late 18th century Britain and, more importantly, the second industrial revolution of the mid-19th century. Far from being irrelevant to the economic situation today, these events almost certainly tipped the balance of history and, by excluding alternatives, dominated subsequent developments. One such event, the Great Famine, was apocalyptic even by world standards while others, such as the Act of Union and partition, were of more local consequence.

We then focus on three key economic issues that run as themes through all subsequent economic development on the island. These are the abnormal demographics of the island; the economic geography of the island and the emergence of the early to mid-20th century North-South divide; and the economic relationships between the island and the rest of the world, including Britain. We conclude with a review of the legacy that pre-1960 history bequeathed to modern policy makers, North and South, the investigation of which will be taken up in the next chapter.

2.2 Key events

2.2.1 The Act of Union

Ireland was on the move in the latter half of the eighteenth century. Under a devolved parliament, however imperfect its structures, economic and social advances were being made at a time when the early effects of the industrial revolution in Britain were beginning to spill over into adjoining countries. Whatever else it did, the Act of Union in 1800 fundamentally changed the terms on which Ireland would relate to the global super-power on its doorstep, and ushered in an era of what has been called ‘dependency’ or ‘capitalist colonisation’ (Crotty, 1986). After the Union, policy making adjusted to control from London and there was to be no protection from the full rigours of competition with the hegemonic British economic giant.

However, to claim that all economic progress stopped after the Union is grossly simplistic, and in recent years a number of historians have sought to correct the excesses of this ultra-nationalist type of reaction (Johnson and Kennedy, 1991; Ó Grada, 1994). Nevertheless, the nationalist interpretation of the economic history of 19th and early 20th century Ireland was politically influential before, during and after the foundation of the Southern state and its attraction endures even today, though mostly only in a subliminal form.

The classic statement of the nationalist economic thesis was contained in the writings of George O’Brien (O’Brien, 1918 and 1921), the central theme of which is the claim that the absence of political autonomy during the 18th and 19th centuries condemned Ireland to economic stagnation and decline. Johnson and Kennedy [1991] summarise O’Brien’s four main arguments as follows:

a) Considerable economic benefits had been
conferred on Ireland during the brief period of legislative autonomy that occurred between 1782 and 1800, i.e., by ‘Grattan’s’ Parliament;

b) The Act of Union was followed by a long period of economic decline which adversely affected the country in the areas of public finance, agriculture and industry, the causes of which can be directly attributed to the provisions of the Act and the absence of any autonomous local legislative power;

c) The strong performance of the economy of the north–east region of the island, centred on Belfast, is explicable in terms of conditions of special advantage that only applied to Ulster;

d) The system of land tenure was a longstanding source of Irish economic weakness, but once again Ulster was in a privileged position relative to the rest of the country.

The revising historians challenge the factual basis for at least three of the above four claims. The first claim is held to be inconsistent with the fact that while in many regions of Ireland economic indicators did improve during the last two decades of the 18th century, they improved even more in the aftermath of the Union and up to the onset of the Great Famine in the mid–1840s. Furthermore, the previous Irish Parliament opposed protectionism and favoured free trade. In addition, many of the economic improvements had their origins in the early and mid-18th century, well before they could be influenced by Irish parliamentary legislation. Indeed, Johnson and Kennedy conclude that:

Expansion in agriculture and industry in the period 1750–1800 owed little to Irish parliamentary action. The dynamic of growth was supplied by the market, organisational and technological changes associated with the rise of urban, industrial capitalism in Britain (op. cit., p. 16).

Neither is the second ‘nationalist’ claim borne out by closer examination of the facts. The net contribution made by the Irish exchequer to Britain (2/17 of total British expenditure) was considerably less of a burden when Imperial expenditures undertaken in Ireland were taken into account. The Act of Union ensured continued access for Irish agricultural goods to the expanding British market. Furthermore, any adverse changes in the composition of trade in agricultural goods (e.g., a shift from processed meat to live exports), were determined by market conditions and improvements in transport infrastructure that were already in train. A sector–by–sector examination of the performance of Irish industry also shows up the weakness of the nationalist case in blaming the Union. Nor does the success of the north–east region appear to have been built on a land tenure system which encouraged the accumulation of capital. Were it not for the advent of the Great Famine, Johnson and Kennedy’s conclusion is difficult to fault on economic grounds in the context of the 19th century environment:

Economic conditions for the exercise of autonomy in the first half of the nineteenth century were far less favourable than in the second half. Being a region of the UK economy was then, perhaps, the optimal arrangement for Ireland (op. cit., p. 28).

2.2.2 The Great Famine

The calamity of the Great Famine, the causes of which had been building up for decades, ripped asunder the fragile social and economic fabric of the island and in particular exposed the economic weakness of the densely populated Western regions. In his examination of the causes of Ireland’s poor economic performance in the 19th and 20th centuries, Lars Mjøset places the post-Famine population decline at the centre of a vicious circle, interacting with and exacerbating what he calls a weak “national system of innovation” (Mjøset, 1992).

By devastating the population through death and emigration, the Great Famine prevented the emergence of a dynamic home market for local industry. By bearing most heavily on the more agricultural South, it further accentuated separation

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* A related theme originates from the Marxist interpretative tradition, suggesting that Ireland’s economic link with British capitalism has on occasion and in some sectors been malign (Munck, 1993, chapters 1 and 2). The late Raymond Crotty further develops the interpretation of Ireland as an example of capitalist colonization (Crotty, 1986).

* A national system of innovation is defined by Mjøset as encompassing the institutions and economic structures which affect the rate and direction of innovative activities in the economy (Mjøset, 1992, pp. 43–50).
The concepts of ‘exit’ and ‘voice’ were first used by Albert Hirschman. They develop the idea that there is a wide range of economic processes in the efficient unfolding of which both individual, economic action (via exit) and participatory, political action (via voice) have important constructive roles to play. These concepts widen the notion of market failure and their application illuminates many important economic and political processes (Hirschman, 1970).

The main legacy of the Famine was a gross distortion of the evolution of Ireland’s population after the middle of the 19th century and creation of the conditions for a very uneven spread of the next wave of industrial revolution to Ireland during the second half of that century. Ó Gráda has commented:

*No other 19th century European society endured such an ecological jolt*” (Ó Gráda, 1994, p.235).

He concludes that:

*The Great Irish Famine is a grim reminder of how narrowly the benefits of the first Industrial Revolution had been spread by the 1840s. Nearly a half century of political and economic union had made little or no impression on the huge gap between Irish and British incomes, nor was it enough to shield Ireland from cataclysm* (Ó Gráda, 1994, p.208).

### 2.2.3 Partition

Seen from Belfast, there were strong elements of an economic rationale for partition in the first two decades of the 20th century, at a time when the economy of the north-east of Ireland, centred on that city, was at its zenith. A subsequent irony was that the strong and successful Northern industries – mainly linen, shipbuilding and associated heavy engineering, that required insider access to the British market – were the ones that suffered most seriously in the aftermath of partition, except for a revival during the abnormal circumstances of the Second World War.

Partition was irrelevant to the long-term decline of these Northern sectors, since their pattern of decline was simply mirroring a wider British phenomenon. However, had the political forces leading to partition not been so strong, economic issues might have come more to the fore in a constructive way during the political negotiations of 1920–21. For example, how much did the key Northern industries depend on British orders placed for non-market reasons? How might the inclusion of the industrial north-east in a non-partitioned Ireland have moderated the tensions that led to the economic war of the 1930s, whose most serious consequences affected the South’s agricultural sector and pushed the South for three decades down a path of protectionist self-sufficiency?

The sundering of the engineering/industrial North from the mainly agricultural/food processing South destroyed any possibility, if there were such, of building intra-island economic synergies. The centrifugal bonds of identity, tradition and allegiance were simply too strong for the centripetal forces of economic rationality. After partition, North-South trade diminished, sources of supply adjusted, and economic life and policy planning on the island accommodated to partition, even if political rhetoric did not.

The view has been often expressed that the partition of Ireland was an economic as well as a political disaster. For example, Mjøset suggests that the loss of Belfast was a once-off event that exacerbated a post-colonial economic vicious circle, since the South was separated from the only surviving industrial centre on the island (Mjøset, 1992, p. 10). However, the dramatic post First World War reversal in the fortunes of the North’s two main industries (linen and shipbuilding) raises questions about how much they would have provided innovation and resources for the industrialisation which the mainly agricultural South urgently needed.

The 1924 census of production showed that almost 52 per cent of the North’s manufacturing labour force was employed in linen, at a time when across the world the demand for linen was in terminal decline (Bardon, 1992, p. 517). Difficulties in Northern shipbuilding were caused by its almost exclusive dependence on a shrinking British market, at a time...
In these three states, only for a short period towards the end of the 19th century did their emigration rates (i.e., emigration per thousand of their population) come anywhere near the high Irish rates. No other country approached the emigration rates of the four countries shown in Figure 2.2.

2.3 Key economic issues

Another way to explore the history of Irish development is in terms of key economic issues. Sometimes these can be closely related to a single historical event. For example, the Great Famine dominates all other explanations in a quest to understand the unique pattern of Irish demographics. However, other issues are associated with a series of events, no one of which is dominant, but which combine and interact to produce a specific economic out-turn.

In this section we identify three such issues, starting with a brief review of demographics. The second key issue concerns the emergence of a North–South divide in the economy, which came eventually to dominate the East–West divide of greater antiquity. The third key issue concerns the manner in which the Irish economy, and later the economies of North and South, came to be almost totally dominated by interactions with Britain, the difficulty in breaking free from this embrace, and the consequences of the British link for policy making on the island.

2.3.1 Demographics, emigration and decline

Two unique features of Irish demographics stand out clearly. The first, concerning population growth, is illustrated in Figure 2.1, where a comparison is made with a range of other smaller European nations using data taken from Mjøset (1992). Of the ten comparison countries used by Mjøset, only Ireland showed a decline in population between 1840 and 1910.

The second concerns the extent of Irish migration, where Figure 2.2 makes a comparison with a subset of the three other nations that displayed significant migration behaviour some time during the period 1851–1960: namely, Denmark, Norway and Sweden.

However, there is no simple cause and effect explanation of Ireland’s poor economic performance, particularly in the 20th century, in terms of emigration, since emigration could be both a cause of slow growth and an effect of slow growth originating from other failures in the economy. Causes and effects become circular, and the real challenge is to include emigration in a broader study of the Irish pattern of development.

Mjøset’s investigations use the notion of a vicious circle linking two key Irish characteristics: population decline via emigration, and a weak national system of innovation (Mjøset, 1992, p.50–67). These two mechanisms reinforce each other negatively through the social structure: the pastoral bias of agrarian modernisation, paternalistic family structures, sluggish growth of the home market, and a further marginalisation through weak industrialisation. Many of the elements in the weak national system of innovation arose in the context of the economic geography of 19th century Ireland, to which we now turn.

12 A fascinating and prescient insight into the tensions in the world economy between maintaining policies of laissez faire or retreating behind protectionism in the early 1930s is provided by Keynes’ Finlay lecture, delivered at University College Dublin in 1932 (Keynes, 1933).
Figure 2.2: Irish emigration patterns in an international context

2.3.2 Economic geography and the North-South divide
A striking feature of the geography of economic activity is that it often occurs in forms that are highly concentrated spatially. The reasons behind the tendency towards concentration are associated with the presence of increasing returns to scale and agglomeration economies that come from the more intense economic interactions that proximity encourages. For example, the bulk of U.S. manufacturing industry became concentrated during the second half of the 19th century in a relatively small part of the north-east and the eastern part of the mid-west of the United States. The resulting manufacturing belt persisted into the second half of the 20th century, and by the middle of the 20th century still contained some 60 per cent of manufacturing employment, down from its 74 per cent share at the end of the 19th century (Krugman, 1991).

Continental Europe has a manufacturing triangle containing the Ruhr, Northern France, and Belgium. Within Britain, the first stage of the Industrial Revolution concentrated in specific areas: Lancashire for cotton, Glasgow (the Clydeside) and Liverpool for shipbuilding, Birmingham for engineering and manufacturing. Hence, it was not entirely surprising that when the Industrial Revolution came to Ireland in the latter half of the 19th century, it developed in a geographically concentrated form. However, Ireland’s industrialisation was never to emulate Britain’s generalised economic and technological leap forward. Rather, it was to involve a few specific sectors (brewing, linen, shipbuilding), and selected locations (mainly Dublin and Belfast), and by-passed much of the rest of the country. What is of interest is that the concentration of the key sectors, linen and shipbuilding, came to be located almost exclusively in the north-east corner of the island.

Ó Gráda points out that the common perception of early 19th century Ireland as an agricultural economy does not square with the 1821 census that indicated over two-fifths of the population were in occupations such as trades, manufactures or handicrafts (Ó Gráda, 1994, p. 273). The provincial percentages of the population engaged in such activities ranged from a high of 55 in Ulster to a low of 24 in Munster, with much higher percentages in sub-regions in the north-east of Ulster (e.g. over 75 per cent in County Armagh). However, little if any of this type of ‘proto-industry’ had the characteristics of the explosive growth that were typical of the first Industrial Revolution in Britain.¹³

The fortunes of key sectors such as cotton, linen, wool, shipbuilding and distilling during the first half of the 19th century have been documented by Ó Gráda (op. cit., pp. 273-313). Factors influencing the success or failure of these sectors included access to energy resources (mostly imported coal); the role of entrepreneurship (where the importation of techniques, finance capital, capital goods and skilled workmen played a crucial role, North and South);¹⁴ the possible deterrent role played by crime and civil unrest (which was not reflected, however, in insurance premia relative to Britain) and the price of labour (where lower Irish wages were offset by lower productivity).

Recent advances in the theory of economic growth provide compelling insights into why the Belfast region developed rapidly as the only region in Ireland that fully participated in the latter phases of the Industrial Revolution. In fact, the greater

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¹³ Ó Gráda points out that the proto-industrial zone of the north and north-east was an area of poor land and small farms, where the textile industry bulked large (Ó Gráda, 1994, pp.32-42).

¹⁴ For example, the Yorkshireman Edward Harland relied on the help of a Liverpool–German financier and the German Gustav Wolff to set up Harland and Wolff (Ó Gráda, 1994, pp. 324–331).
Belfast region took on all the attributes of what economists refer to as an ‘industrial district’, i.e., a geographically defined productive system characterised by a large number of firms that are involved at various stages and in various ways in the production of relatively homogeneous products.

A full exploration of the reasons behind the rise of the north-east region would be a major task by itself, and we can merely touch on some of the main factors. For example, events such as the restriction on cotton imports during the American Civil War provided a major boost to the expansion of the factory-based linen industry. However, it was the rise of shipbuilding and engineering, activities that were characterised by much higher wages than the linen mills, which launched Belfast on its path of spectacular growth.

As Bardon (1992) points out, chance played a part in ensuring that Edward Harland remained in Belfast, having failed in his initial attempts to attract finance and set up on his own account in Liverpool. Belfast had few of the assets needed to become a great shipbuilding centre, and no notable advantages over other sites in the South. But the actions of the Belfast Harbour Board made the most of it by excavating the Victoria Channel and creating ample space at Queen’s Island for future expansion of the shipyards. Once the shipyards began to grow and become successful, they interacted with local textile and other industries in creating demand for a huge range in intermediate inputs, such as ropes and rigging, woodwork, metal products, steam engine design and construction. Linen mills created backward linkages to engineering since the construction of steam engines for use in such mills involved boiler-making, and these skills were important in the building of iron ships. Many other examples of user/producer interaction abounded in the greater Belfast region.

As this process got under way, it became a virtuous circle of cumulative causation, bringing increased economic benefits to the north–east region of Ireland. By the early 1910s two Belfast shipbuilders, Harland & Wolff and Workman Clark, produced over 150,000 tons between them each year, and accounted for 8 per cent of world output and about one quarter of UK tonnage. Indeed, Harland & Wolff had become the biggest shipyard in the world, launching the world’s largest ships, while Ulster was the greatest centre of linen production in the world (Ó Gráda, 1994, pp. 282–292, and 296–297; Bardon, 1992, pp. 306–384). Most strikingly, a decline in population of almost 55 per cent occurred during the years between 1841 and 1951 in the area that was eventually to become the Republic of Ireland, compared with a decline of only 17 per cent in the area that was to become Northern Ireland (Mjøset, 1992, p. 222). Population actually grew in the area around Belfast, to the extent that by the year 1911 the population of the Belfast area (at 386,947) had outstripped that of Dublin (at 304,802).

2.3.3 Relations with the rest of the world

The political incorporation of Ireland into the United Kingdom in 1801 generated forces that led to a comprehensive economic and trade integration as well. The full extent of this integration after more than one hundred years of Union is illustrated in Figure 2.3 for the case of the South. This figure shows the UK-Irish trade position from just after partition to the year 1950. The proportion of Southern exports going to the UK showed a very small reduction from 98.6 per cent in 1924 to 92.7 per cent by 1950. The decline in imports was more marked: 81.1 per cent originated in the UK in 1924, and this had fallen to 52.9 by the year 1950.

Figure 2.3: Southern trade shares with Britain and the North

The failure of the South to diversify its economy away from an almost total dependence on the UK had serious consequences for its economic performance. The poor performance of the Southern economy when compared to a range of other small European countries has been the subject of much

15 Jonathan Bardon’s Belfast: An Illustrated History provides a fascinating account of the political, social and economic aspects of the rise of linen and shipbuilding in the mid and late 19th century north-east region (Bardon, 1982).
research and comment. The reluctance of the new Southern public administration to deviate too much from British policy norms has been well documented (Fanning, 1978). The inability of the new Northern administration to deviate in any significant way at all from UK-wide policy decisions simply reflected the extremely limited scope for local autonomy that was provided for in the 1920 Government of Ireland Act.

Starting from a position of almost full economic integration within the UK, it is hard not to be sympathetic with Southern policy makers as they considered their options. The eventual break with *laissez faire* that came with the first change of administration in 1932 was not, in fact, such a dramatic step, since protection had been creeping into the international economy during the 1920s and the world financial system that had supported free trade was being rocked to its foundations.

The nature of the difficulties faced by the South in breaking free from the economic embrace of the UK are well illustrated by the behaviour of trade within the European Union over the past thirty to forty years. Thomsen and Woolcock (1993) pointed out that the exports from individual countries to the rest of Europe at that time were still highly concentrated in only a few markets. For example, the top three export markets within the Union for each member state took in between 56 and 77 per cent of total intra-EU exports from that country, with the largest economies figuring prominently in this list (Germany, France, the United Kingdom), but export market proximity as well as size was a factor. Market size, distance, common borders and similar languages strongly influence intra-industry trade and the pattern of overall trade in Europe.

This led Wijkman (1990) to extend the analysis of geographical factors by looking at what he calls "webs of dependency". He suggested that there were three sub-regional trade blocs in Europe. The first was the North periphery, consisting of the UK, Ireland and Scandinavia. The second was the South periphery, comprising the Iberian peninsula, Greece and Turkey. The remaining countries were clustered around Germany and called Core Europe. Comparing the trade pattern of 1958 with that in 1987, Wijkman found that in many cases these clusters had become more, rather than less, clearly defined as a result of greater EU integration. However, we shall see that the (Southern) Irish relationship with Britain, which had been among the very strongest webs of dependency prior to 1960, weakened considerably thereafter for very specific reasons.

It was hardly surprising that these islands formed a particularly strong web of dependency, continuing from independence well into the 1960s. While Southern Irish policies and policy makers may have been less assertive and innovative than might have been desired, in the absence of a robust industrial sector there is probably very little that could have been achieved to accelerate an earlier economic decoupling of the South from the UK. The consequences for the South followed inexorably. In the words of Mjøset:

_Ireland became a free rider on Britain’s decline, while Austria and Switzerland were free riders on Germany’s economic miracle. Even Belfast specialised in lines of production which fitted into the general British orientation: textiles and shipbuilding (Mjøset, 1992, p.9)_

The strong web of dependency between the South and the UK only began to weaken after the shift to foreign direct investment and export-led growth that followed the various *Programmes for Economic Expansion* in the late 1950s and during the 1960s. Figure 2.4 shows the behaviour of the shares of Southern exports going to the UK, and Southern imports originating in the UK, for the period 1960-92. The forces that brought about this changed pattern of behaviour are further explored in the next chapter.

However, even after a period of thirty years exposure to foreign direct investment, the same essential dilemma exists for the South and the North, and has been summarised in slightly more political terms:

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16 Mjøset (1992) is a seminal study of Southern economic under-performance that draws carefully from a wide European literature on social and economic development. Lee (1989) is a more discursive historical narrative.

17 See Keynes (1933) for the reflections of an economist of world stature on free trade and protection. Kenwood and Lougheed, (1992) analyse the impact of World War I on the workings of the international economy and its subsequent collapse during the 1930s.
Governments in small, open economies are severely limited in what they can achieve in terms of industrial development, more especially when they function essentially as client economies. The Republic has become increasingly a client state of international business. While this is also true of the North, this spatial unit has the added problem of being a client region of a state experiencing significant industrial decline (Brunt, 1989, pp. 229–230).

Figure 2.4: Southern trade with the UK: export and import shares 1960–92

2.4 Legacy: the two economies in the 1960s

The South embarked on a path of political independence with an economy that was without significant industrialisation, but was dependent on mainly agricultural exports to the British market. The North achieved regional autonomy within the UK at a stage when the perilous state of its strong industrial base was still hidden in the aftermath of the economic boom created by the First World War. The relative positions of North and South are illustrated in Figure 2.5, which shows the approximate Northern ‘share’ of gross industrial output just before 1914.

Other than the range of food processing activities, such as grain milling, brewing and malting, butter, cheese, bacon curing, etc., the South was virtually without industries at this time, while the North’s success was built on linen, engineering, and shipbuilding (Ó Gráda, 1994, pp.312–313).

Figure 2.5: Industrial structure in Ireland in 1907 and Southern sectoral shares of 10 largest sectors

Between 1922 and the early 1960s there were many changes in the North and South, but few of major significance compared to the legacy of the pre-1922 period. The South attempted to construct an industrial base behind a protective barrier of high tariffs. The North’s staple industrial specialisations continued in decline, with a temporary interruption during the Second World War. Both regions entered the 1960s in a state where major policy changes were needed, even in a situation where the North had been moderately successful during the 1950s in attracting British investment in the area of textiles, artificial fibres and other petroleum-based products.
What was not anticipated was that the outbreak of the ‘troubles’ after 1968, combined with the global oil price crises of the mid-1970s and the early 1980s, would make this transition much more prolonged and difficult than it would have been in a period of peaceful economic transition within a stable global economy.

Some important lessons can be learned from the economic history of the island over the last century and a half. First, the modern features of the island economy were clearly present from the middle of the 19th century. These included a weak island industrial base, other than in the north-east corner of the island; the interaction of population growth with weak economic performance that was to appear as a mixture of unemployment/under employment and emigration; a vicious circle of interaction between emigration and a weak ability to create a national system of innovation; and an almost complete integration into and dependence on the British economy.

Only after a period of national crisis was a sustained effort made in the South to address these problems with the publication of Economic Development and The First Programme for Economic Expansion in 1958 (Stationery Office, 1958). Parallel efforts were made in the North during the 1950s and 1960s and temporarily produced a rate of Northern industrial-based growth that exceeded that of Britain (Farley, 1995). However, subsequent efforts were hampered by the OPEC oil price crises and the slowdown in world growth, by a lack of appropriate regional policy instruments and by the effects of the outbreak and persistence of the ‘troubles’ from the late 1960s.

The fragmentation of the island economy, which had very specific roots in the extraordinary late 19th century success of the north-east region, had little enduring logic in the last decades of the 20th century. The challenge faced by Northern and Southern policy makers was that of designing political solutions that would maximize the development potential of their own regional economies and seek out and encourage the emergence of suppressed natural benefits of the island economy within the constraints of being a very small part of the global economy, while also meeting other, more political requirements. These issues are taken up in later chapters.

3.1 Introduction

Having scanned two centuries of economic history, we now narrow our focus to the period from the escalation of the ‘troubles’ in Northern Ireland in the late 1960s to the period just before the signing of the Belfast Agreement in 1998. The damage done to the economy of the North, and to a lesser extent to the Southern economy, is examined. Although economists of nationalist and unionist sympathies are likely to interpret the socio-economic record of recent decades with differing degrees of emphasis, the facts tend to speak for themselves. However, the main studies of both economies, such as carried out by the ESRI in Dublin and the NIERC in Belfast, provided examples of analyses that ignored North-South inter-comparisons and island economy issues. In part this simply reflected perceptions of the very limited economic interactions between the two regions and the restricted way in which the prospects for future beneficial interactions were considered by practising forecasters of that era.

At the other extreme from pragmatic economic analyses of factual reality were economic analyses of ‘new’ types of Ireland. For example, Dowling (1974) examined the economics of a unified Ireland and an updated recalculation along the same lines was provided by the Cadogan Group (Cadogan Group, 1992). The 1984 New Ireland Forum studied some of the macroeconomic and public finance consequences of three possible alternative political arrangements on the island: a unitary state, a federal or confederal state, and joint authority (Stationery Office, 1984). O’Leary et al. (1993) updated these types of calculations for a joint authority model of governance. However, this type of ex ante quantitative politico-economic cost-benefit analysis needs to make very strong theoretical and practical assumptions and must be undertaken with great care. For example, the implicit political and institutional assumptions that motivated such studies would have induced so much change in the underlying economic performance of the private sectors, North and South, as to call into question the relevance of any analysis that focused mainly on public sector fiscal matters.

In reading the extensive economic literatures of the Northern and Southern economies of this period, one is constantly being reminded of the very different mindsets within the North and the South. For example, in a 1991 NIEC report examining the broad policy options for the North – a document of remarkable frankness and insight – the following sentence occurred:

By virtue of its physical separation from the rest of the UK and position in relation to Europe, Northern Ireland cannot be said to have any strategic advantage in location (NIEC, 1991, p. 4).

The economic literature of the South is littered with similar references to its own peripheral situation. Hence, one cannot avoid the conclusion that in the past each region saw its peripherality not in the context of the island of Ireland, encompassing in an entirely benign way the similar plight of the other region, but in a more exclusive way that placed little value on the strategic market potential of the other region or of the island economy as a whole.20
Of more immediate practical use were attempts to describe the two regions in the context of their existing, unchanged political and institutional arrangements. Even without invoking major institutional changes, this would be a difficult enough task by itself and one that was never carried out during these years in an entirely satisfactory way, North or South. The goal of such descriptions should be the identification of actual or potential bottlenecks to better economic performance in the two regions. If such an examination led one to conclude that particular economic failures could be credibly attributed to inappropriate and restrictive political and institutional arrangements, and if such an attribution were acceptable to people in the North and the South, then a rational economic basis for political dialogue between the two regions might have been established at an earlier stage.

Despite the difference in political status of the economies of North and South, both share an extensive dependence on the external world. The external trade links of Northern Ireland are dominated by sales to British markets and the external multinational presence in the North has always been dominated by British firms. Prior to 1960 the South’s trading and other external links were similarly British oriented, but since then the sources of imports and the destination of exports have diversified considerably. Furthermore, the United States of America rather than Britain played the leading role as the main source of inward foreign direct investment in the South. The importance of the British–Irish influence works the other way as well. For example, the South was the UK’s fifth most important export destination in 1990, taking an export share of 5.1 per cent, nearly half of the 12.7 per cent share of Germany – the largest single destination – and was the only major trading partner with which the UK ran a trade surplus, amounting to about £1 billion in 1990. By 2011 the situation remained almost unchanged, with Ireland still the fifth largest export destination, behind the USA, Germany, France and the Netherlands.

In addition to world trade and multinational investment flows, there have always been large migrant labour movements between the island of Ireland and Britain which are crucial to an understanding of the island’s two economies. The openness of the labour markets on the island of Ireland means that the migration mechanism plays a major role in adjusting regional labour supply and demand, and heavily influences regional wage setting, particularly in the South, in a way that is unique among developed economies.21

Their close geographical proximity and common land border, the strength of their external linkages and the degree of economic dependence on Britain that these imply, make it useful, despite their difference in political status, to study the Northern and Southern economies in a common framework both as regions within the grouping of these two islands and within the wider European Union. In addition, at various times the two Irish regions have had many economic and social problems in common: serious long-term unemployment; demographic trends that are at variance with most other EU states; the generally poor competitiveness and innovation performance of indigenous industry;22 extreme vulnerability to external economic influences (world growth, in the case of the South, and British fiscal policy in the case of the North); over-dependency on external and foreign multinationals; and imbalances in the public finances that were explicit in the South and implicit in the North.

Although North and South share many economic characteristics and problems, the published literature of this period contains virtually no attempts to place analysis within a common regional economic

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21 Northern and Southern economic models are unique in the EU in that they contain explicit migration mechanisms, reflecting the strength and importance of this link, mainly to the British labour market (e.g., Bradley, Whelan and Wright, 1993; Roper and Schofield, 1990).

22 The relative strong performance of Northern indigenous industry relative to that of other UK regions owes much to the role of the subvention in stimulating demand for non-traded goods rather than to any major improvement in underlying productivity or competitiveness. The role of small firms, North and South, is examined in Gudgin, et al. (1995).
Rather, the North was usually discussed in the context of the eleven sub-regions of the United Kingdom (Harris, 1991) and the South in the context of a small peripheral member state of the EU (Bradley et al., 1995). To an outsider it might seem the most natural and interesting thing in the world to compare the economies of North and South. Making allowance for their different economic structures at the time of the partition of the island in 1920, such a comparison might fruitfully address the fascinating question of the extent to which political and economic institutions, culture, attitudes to enterprise and innovation, and personal characteristics condition economic performance (Mjøset, 1992). Nevertheless, there have been few descriptions of both regions that start off from an assumption that their structure, and the forces that drive them, have more similarities than differences, even if history played an asymmetric role at times. What one does find are at the one extreme, descriptions of both regions in isolation from each other, and at the other extreme, attempts to portray how the two regions might perform under radically changed and often unrealistic political arrangements.

Given their shared regional and peripheral characteristics, many interesting issues can be addressed within a comparative study of the two economies of Ireland. For example;

a) Having been previously the most heavily industrialised region of the island of Ireland, the Northern manufacturing sector declined sharply since the 1960s and, at least relative to the more dynamic behaviour of the South, the North failed to capture adequate substitute multinational investment. What are the consequences of this relative decline and difference in performance?

b) During the troubles, the North was in receipt of large-scale regional transfers within the UK. What effects have these transfers had on the structure of the Northern economy compared with the effect of the parallel extensive public sector borrowing on the economic performance of the South?

c) Given the difference in structure and behaviour of the Northern and Southern economies, how does each separate region react to shocks in external or world factors?

d) More generally, what is the potential for accelerated growth and development in the North and the South, an acceleration that would have been needed during these years if the relative position of both regions towards the lower end of the EU league table was to be improved?

In this chapter we provide an overview of the economies of both regions for the period of the ‘troubles’, focusing on six key issues. First, we examine the behaviour of the private sector (mainly manufacturing, but including market services), which is usually the ultimate ‘engine’ of regional growth. Second, we look at the role played by the public sector in offsetting the costs of the ‘troubles’ in the North and in improving the level of public services of all kinds in the South. Third, we examine the behaviour of the two labour markets, as unemployment soared in both regions during the 1980s. Fourth, we explore issues that arose in paying for public sector activity such as public employment, investment and income transfers. The fifth issue concerns regional competitiveness and the trade balance. Finally, we examine methods that have been used to quantify the costs of the ‘troubles’ to the North, and the more modest knock-on costs to the South.

3.2 The private sector

3.2.1 Manufacturing

The manufacturing sector of a modern small open regional economy is very directly exposed to competition in the wider external or international marketplace. We saw in Chapter 2 that for the earlier period 1932–1960 there had been rapid growth of all kinds of indigenous industry in the South, protected from international competition by high tariff barriers. However, after the advent of the Anglo–Irish Free Trade Agreement in 1965 and EC entry in 1973, much of this industrial base vanished,

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23 A unique early joint North–South economic analysis was Gibson and Spencer (1975), which contained an outline of a simple formalized Keynesian model schema of the two regions. The only other study known was the HERMIN and NIMIN North–South modelling exercise, described in Bradley and Wright (1982) and Bradley, Whelan and Wright (1993). Both regions have, of course, been extensively analyzed and modeled in isolation from each other.

24 The study of the UK regional economies by Harris (1989), excluded any mention of, or comparison with, the Republic of Ireland and even ignored links between individual UK regions and the rest of the UK and the external world.
unable to compete with more efficient foreign firms (Kennedy, Giblin and McHugh, 1988). Northern Ireland, of course, always functioned in a regime of free trade, with full access to the large British and Commonwealth markets.

Since both regional Irish home markets were so small, the domestic traded sectors, North and South, simply could not efficiently supply all their different needs through import substitution. Rather, they needed to specialise in a narrow range of products, sell in highly competitive export markets, and import the goods not produced at home. As they moved to such specialisation, the two most striking aspects of manufacturing activity on the island over the three decades 1960–1990 are that total island-wide manufacturing employment remained almost unchanged (359 thousand in 1960 compared with 343 thousand in 1990), while a dramatic shift in favour of the South was taking place (Figure 3.1).

![Figure 3.1: Changing size of Northern and Southern manufacturing employment](image)

The evolution of aggregate Northern and Southern manufacturing employment over the period of the ‘troubles’ is shown in Figure 3.2. What caused this pattern of change? While Northern manufacturing output (more accurately, GDP arising in the manufacturing sector) stagnated, Southern manufacturing output rose rapidly, even adjusting for distortion of the figures due to transfer pricing by foreign multinationals and the associated profit repatriation. The stagnation of Northern manufacturing was accompanied by a massive shedding of labour and had serious consequences for the wider Northern economy. However, despite the strong growth in output, the performance of Southern manufacturing employment during these years was somewhat disappointing. The decline of labour intensive, low productivity, traditional industries was accompanied by rapid growth in high technology, high productivity, capital and R&D intensive domestic firms and foreign multinationals. The result of these two offsetting patterns was that total Southern manufacturing employment grew to a peak in 1980 of 250,000, but declined during the prolonged post-OPEC II recession to just under 230,000 in 1994.

The decline of the Northern manufacturing sector relative to the South and, in particular, the decline of Northern manufacturing employment in absolute terms, are key Irish economic events of this period. There are two very obvious questions that arise from this contrast in manufacturing behaviour. First, was the North–South difference in manufacturing performance due mainly to the ‘troubles’ in the North, starting in the late 1960s and continuing to the mid-1990s? Second, was it due to a greater policy flexibility enjoyed by the South, with the Republic’s ability to deviate, to some extent, from the UK policy norms that dominated the North?

![Figure 3.2: The evolution of Northern and Southern manufacturing employment](image)

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25 Transfer pricing arises when foreign firms based in the South understate the price of their imported intermediate inputs, both materials and R&D, and thus overstate the extent of added value arising in their Irish subsidiary. Increased profits arise from the low rate of Southern corporation tax in manufacturing (formerly 10%, now 12.5%), and these profits are then mainly repatriated or otherwise used outside of Ireland.
Concerning the ‘troubles’ factor and Northern industrial decline, there is a certain amount of research on the quantification of the economic effects of civil unrest, but no very convincing conclusions. In such research, all Northern under-performance relative to other UK regions tends to be attributed purely to the ‘troubles’ (see section 3.7 below). However, the ‘troubles’ factor, no matter how serious and substantial, is inextricably linked to the role played by public expenditure in attempting to mitigate the negative consequences of the civil unrest. This role involved such policies as capital and labour subsidies, increased public sector employment, public sector purchases of goods and services, improved infrastructure, education and training expenditures, etc. In the absence of this public financial support, the decline of the indigenous Northern manufacturing sector, together with the wider non-manufacturing economy, would undoubtedly have been much worse. On the other hand, the inability of the North to attract inward investment to anything like the extent of the South can probably be blamed partially on the uncertainty and disruption of the ‘troubles’ as well as on world economic conditions. However, the fact that the ‘troubles’ coincided with a serious crisis and ‘tipping point’ in Northern industrial strategy suggests that it is useless to attempt to pin the subsequent decline on the ‘troubles’ per se (Munck, 1993, pp. 60–64).

Concerning the second (policy flexibility) factor, comparison of Northern employment performance with aggregate UK performance shows that Northern Ireland was merely tracking a wider UK manufacturing decline, as Figure 3.3 illustrates, but without the parallel strong growth of private services that occurred in the more prosperous core British regions in the south and midlands of England. The North, together with other relatively poorer peripheral British regions, appears to have been unable to arrest this decline with the limited range of policy instruments and the level of support available (NIEC, 1992, p. 21). Specific Northern Ireland comparisons with Scotland tend to reinforce this finding (NIEC, 1992, pp. 38–43). It seems reasonable to conclude that the Northern decline relative to the South was due at least in part to a lack of policy flexibility in the North rather than to poor implementation of available Northern policies.

The performance of the Southern manufacturing sector may look flattering in comparison with the North, but contains a disturbing difference between the sluggish growth of the Southern indigenous sector, with its lack of international competitiveness, and the more rapid growth of the less employment-intensive foreign-owned sector (NESC, 1992). In Figure 3.4 we illustrate the different employment performances of three sub-sectors of Southern manufacturing: high technology (largely foreign owned), food processing, and other traditional (mainly indigenous) manufacturing. The data show the dramatic rise in importance of the largely foreign-owned high technology sector relative to the traditional sector.

As observed by Teague (1987), the relative stagnation of the Northern and Southern economies during the 1950s led policy makers in both regions simultaneously to make fundamental re-evaluations of industrial policy and actively seek foreign direct investment. Both regions designed attractive investment grants and factory building schemes. In the South, a zero rate of tax on profits arising from exports was put in place in the late 1950s, replaced after EC entry in 1973 by a flat rate of 10 per cent on profits in manufacturing. This was eventually replaced by a flat rate of 12.5 per cent on all corporate profits. In the British policy as applied in the North, a regional employment premium (REP) scheme of wage subsidies was included, among other subsidy and grant-based policies.

Foreign investment in both regions grew rapidly over

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the period 1958 to 1975, mainly in the engineering and textiles sectors. The South continued to benefit from a continuing inflow of foreign investment during these years, interrupted only temporarily by the OPEC-I and II world recessions, and continuing thereafter at a somewhat slower rate, reflecting slower world growth. In the South, the emphasis in foreign direct investment shifted to computer, chemical and pharmaceutical products in the 1970s and 1980s. However, many of the earlier Northern multinational projects were lost (particularly in the artificial fibre sector) and the ability of the North to attract new replacement multinational investment in high technology areas was considerably weaker than that in the South (NIEC, 1992).

Figure 3.4: Manufacturing employment by sector: South

The earlier high level of Northern industrialisation relative to the more agricultural South was significant in two respects: both as a visible sign of economic superiority and because it increased the likelihood of Northern self-sufficiency within the United Kingdom. Even as late as 1960 there were still more people employed in manufacturing in the North than in the South, in spite of the latter’s considerably larger population base. During the 1970s and early 1980s this position changed dramatically, for a variety of reasons: the decline of older ‘sunset’ industries in the United Kingdom and elsewhere; wider economic problems in the slow-growing UK economy, the consequences of which were exacerbated by the continuing very close links between the North and Britain; restricted scope for regional fiscal and development policies compared with the more autonomous South; and the inability of the North to win a sizeable share of US direct investment.

The story in the Republic of Ireland was very different. After tariff barriers were dismantled in the 1960s, there was a gradual but systematic shake-out of inefficient indigenous firms that were unable to adjust to world competition, and whose survival had depended on protection. Within the indigenous sector, the progressive rationalisation of food processing through mergers and takeovers led to improved scale efficiencies and increased exports. Finally, the South captured a large share of internationally mobile – mainly US – high technology investment, attracted by a low rate of corporation tax, a wide range of other tailored aids and incentives and a rapidly improving level of human capital and training.

Whatever modest dynamism the Southern economy had during these three decades probably stemmed from the better performance of its manufacturing sector relative to that of the North. This included a greater Southern ability to attract inward multinational investment, the orientation of industry towards products that have high income elasticities (such as computers and pharmaceuticals), and a greater openness to EU markets other than Britain. The failure of the North to secure a strong flow of non-British inward foreign direct investment in the most recent decades is a key distinguishing feature during these years in any comparison with the South.

3.2.2 Market services
The main components of the market services sector are transport, communications, distribution, finance, insurance and other personal and business services. Another category of services consists of building and construction and utilities (electricity, gas and water). To a large extent these activities are directed at the domestic market, although during these years between the late 1960s and mid-1990s elements of financial and construction services became increasingly traded on international markets, a 27 A product has a high income elasticity of demand when a one per cent increase in consumers’ income generates an increased response in demand for the product of significantly greater than one per cent. The phenomenal growth in sales of microcomputers is indicative of high demand elasticities. Many standard food and textile products typically have income demand elasticities lower than unity, although in more recent years the growth of organic and high-quality niche food sector has produced changes.
process that was to accelerate in the following decade.28

The relationship of the market services sector with the manufacturing sector had been changing over the years as many activities previously carried out in the manufacturing sector were being transferred to the service sector. In Figure 3.5 we show the evolution of employment in the market services sector, North and South, over the period 1960 to the mid-1990s. In both cases the sector has grown, in stark contrast to the manufacturing sector for Northern Ireland shown in Figure 3.2 above. However, the Southern service sector growth may have had more to do with the provision of services to the increasingly complex and demanding requirements of the manufacturing sector than in the North, where it may be more associated with the phenomenal growth of the public sector (see below).29

3.2.3 Agriculture

Employment in the two regional agricultural sectors is shown in Figure 3.6, both in absolute terms (a) and as a percentage of total employment (b). Although the shake-out of labour from Northern agriculture started earlier than in the South, mirroring the even earlier decline of British agricultural employment during and after the Industrial Revolution, both regions display a similar pattern of employment decline, in absolute terms and as a share of total employment. Given the decline of Northern manufacturing referred to above, the Northern employment share in agriculture has tended to stabilise in more recent years.

The tourism sector is a particularly important element of market services. Here the effects of the ‘troubles’ were serious. Southern earnings from tourism in 1967 amounted to £565 million at 1985 prices. Only in 1988 did real earnings exceed this figure. Given the high ‘multiplier’ associated with tourism earnings, and the regional dispersal of these earnings, the negative economic impact on North and South was very great, but less dramatic than high profile factory closures in terms of publicity.30

There is a tendency in economic analysis to treat the market services sector as being derivative and subservient to the more traditionally dynamic manufacturing sector, and this is reflected in our discussion above. However, this situation was to change very rapidly after 1990, mainly due to the extensive deregulation of a wide range of services such as transport, telecommunications, electricity, gas etc., as well as the dramatic rise of inward foreign direct investment in tradable services.

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28 The Dublin-based International Financial Services Centre (IFSC) is an example of a market service activity directed almost exclusively at world markets.
29 This is an area where further research is needed, and is hampered by the absence of up-to-date Northern input-output matrices, tools that permit analysis of inter sectoral linkages and dependencies.
30 Tourism expenditures have high multipliers in the sense that tourists tend to purchase home produced goods and services such as food, drink, entertainment, holiday accommodation, transport, etc. On the other hand, a unit of manufactured exports tends to be associated directly with quite high imports of raw materials and intermediate goods, and thus has a lower multiplier effect on the domestic economy.
In the case of the South, the decline of the share of agricultural employment in the economy from 1960 to 1994 – from nearly 40 per cent to about 15 per cent – is a process that was to be repeated in many other European states during the same period, and was to occur even more rapidly in the newly liberalised states of Central and Eastern Europe after 1990. Productivity was always very low in these sectors, and there had never been the kind of modernisation and mechanisation that took place in Britain and Germany. In the CEE region, only the Czech Republic had experienced early agricultural modernisation and mechanisation. As the Southern agriculture sector was modernised, driven to a large extent by entry into the then European Common Market and access to its Common Agriculture Policy, employment declined and productivity increased. The massive level of under-employment vanished and the sector became more commercial. In the North, this process had occurred at an earlier stage, driven by the availability of better employment prospects in the large and burgeoning industrial sector and the greater availability of machinery and equipment for use in farming.

Figure 3.6(b): Share of employment in agriculture, North and South

3.3 The public sector

Our definition of the public sector is quite wide, embracing public administration, policing, defence, health and education. Basically, all employees in this sector have their salaries and wages paid out of the public purse, i.e. from tax revenue or from borrowing/subvention. While public sector employment grew rapidly in both North and South, the actual size of the Northern sector is quite phenomenal, at least compared with the size of the Northern private sector. To illustrate this we show public sector (or non-market sector) employment in Figure 3.7 as a percentage of private (or market) sector employment (i.e. manufacturing, market services and agriculture). In a sense this is a measure of the “burden” carried by a region’s private sector to the extent that regional tax revenue supports the public sector.

A special factor driving up the numbers employed in the Northern public sector over the years of the ‘troubles’ was the need to increase the size of the security forces. The bulk of the increase in the size of the army never appeared in the Northern labour force, being a charge on the United Kingdom as a whole. However, the increased numbers employed in the RUC, the Royal Irish Regiment, and the prison service did appear in Northern public sector employment statistics, serving to inflate them greatly relative to the situation that would have prevailed in a period of peace.31 Total employment in the security area was estimated to be 24,500 in 1995. After a complete transition to peace, and based on British norms, it was estimated that these numbers could be reduced by as much as 50 per cent, i.e. to 12,700 (KPMG Consultants, 1995, pp. 44-46). However, most scenarios considered in the KPMG study envisaged a re-allocation of expenditure to other areas of the non-security public sector, so it remained problematic in terms of its contribution to the reduction of overall public sector employment numbers.

Figure 3.7: Public/private sector employment: North and South

What Figure 3.7 illustrates is that the Northern public sector is dramatically larger than its Southern counterpart, relative to the size of the market sector. The relationship between the exposed manufacturing sector (which is forced to match world prices and is driven mainly by competitiveness and external demand) and the non-market sector is a particularly interesting one. In the South, as we shall see below, the need to finance public sector expansion by immediate or deferred taxation (i.e. debt creation) drives a ‘wedge’ between wage costs borne by employers in manufacturing and the take-home wage spent by employees on consumer goods. Hence, public sector expansion can crowd out employment in the exposed manufacturing sector through loss of competitiveness in that sector as unions drive up nominal wages to restore their real standard of living. This tended to happen in the South during the 1980s and was a cause of serious loss of manufacturing jobs (Barry and Bradley, 1991).

In the North, on the other hand, there is no immediate or fixed link between the size of the public sector and the need to finance it exclusively from Northern Ireland tax resources. Part of the explanation of the behaviour of the public/private employment ratio can be attributed to the need for the North to catch up with British levels of public services, behind which they were lagging. In addition, the small size of the Northern private sector magnifies the ratio. However, the increase in the size of the public sector can still crowd out the exposed manufacturing sector through the effect of the lower rate of regional unemployment in driving up wage rates (Bradley and Wright, 1992). Causation is difficult to establish here. The growth in public sector employment may have been a rational and deliberate policy response by the UK government to the poor performance of the Northern manufacturing sector. On the other hand, a massive autonomous growth of the public sector may have exacerbated the cost competitiveness problems of Northern manufacturing by driving up wages in the North and absorbing too much of the talented workforce into the provision of high wage public services.

In summary, after the start of the ‘troubles’, as the Northern manufacturing sector contracted during the 1970s, much of the slack was taken up by the expansion of the public sector, which had knock-on beneficial demand benefits for market services and the smaller, less export oriented manufacturing firms. Decisions taken to provide social and other public services to the North on the basis of ‘need’ relative to British norms, together with escalating security expenditure, broke the previous pattern of decades of moderate Northern public sector deficits. The North shifted into a situation of chronic regional structural deficits, amounting by the early 1990s to some 25 per cent of Northern GDP. If Northern policy makers remained indifferent to the size of these deficits, and regarded the subvention as an enduring aspect of their economy, then the North would run the risk of becoming trapped in a Mezzogiorno-like problem of permanent dependency.32

The situation in the South was rather different, but had some uneasy parallels with the North. Economic growth during the 1960s, proximity to Britain and close familiarity with British standards, and entry into the EEC in the 1970s, brought with it pressure for a bigger public sector role. This pressure culminated in the late 1970s in an explosive growth of public spending, which was followed after the second OPEC world recession by an unsustainable rise in the public debt. The necessity to tackle the subsequent fiscal crisis by a combination of tax increases and expenditure cuts caused the South’s recession to be long and deep, but produced the basis for a healthier period of high growth that began to manifest itself from the early years of the 1990s, ushering in the decade of the first Celtic Tiger period of expanding manufacturing which dominated the 1990s.33 This period provided salutary lessons for the South that have relevance for the North, in that it illustrated how a small economy could achieve fundamental fiscal and structural change, even with a limited range of policy instruments.

32 The Mezzogiorno region of southern Italy has given its name to a phenomenon that arose when the much richer northern Italian regions gave long-term income transfers to the south, one of whose side effects was to lock the south into a low efficiency, low productivity, low entrepreneurial dependency (CEC, 1993).
33 The first eight years of the new century, 2000–2007, when economic growth was driven by an unsustainable construction boom, is often confused with the earlier, sustainable, period of growth and development.
For the variety of reasons discussed, during the years of the ‘troubles’ the Northern public sector became very much larger, in terms of its share of GDP, than that of the South, with a corresponding higher level and quality of services. A beneficial effect of this for the North was that, given continued finance, the Northern economy was partially shielded from the vicissitudes of recession and downturn in the rest of the world. However, a negative effect was that the Northern economy would be less responsive to upturns in the external economic environment given that the public sector dominated such a large fraction of the regional economy.

3.4 Labour market failure

A shared feature of the two labour markets on the island of Ireland has been the periods of enduring high rate of unemployment in both regions. In Figure 3.8 we show North, South and British unemployment rates.34

The common pattern of behaviour of unemployment during this period is striking. During the 1980s, both Irish regions suffered much higher rises in unemployment rates than occurred in Britain. In addition, the gap between unemployment rates in Britain and in the South has risen by more than has the gap between unemployment rates in Britain and the North, with the period of unsustainable Southern fiscal expansion of 1978–81 being a temporary exception. The Northern situation might well have been much more serious if it were not for the increased role of the public sector, described in the previous section.

In Figures 3.9(a) and 3.9(b) we show the annual change in the working age population superimposed on net migration to and from each region. Positive numbers for migration indicates a net outward flow. Negative numbers indicate a net inward flow. Only the net position is shown on the graph.

Figure 3.8: Unemployment rates: North, South and UK

Figure 3.9(a): Migration and net population change: North

Figure 3.9(b): Migration and net population change: South

The patterns of labour migration and population growth are very dissimilar in the two Irish regions. In the case of the South, migration was net outward.

34 Care must be taken in comparing unemployment rates, both between countries and over time. For the South we use the measure based on the Labour Force Survey, which is a few percentage points lower than the entitlements-based Live Register measure, since the former captures more accurately the concept of active job-search. The UK measures are roughly equivalent to the LFS.
during the 1960s, became strongly net inward during the expansionary 1970s, but reverted to net outward for most of the 1980s and early 1990s. In the early years of the 1990s, just before the ceasefires, net outward migration fell to low levels due to the deterioration of the British labour market and the relative improvement in social welfare entitlements in the South.35 In the case of the North, migration has been more modest and steady, other than during the years 1971–72 which was a period of very serious civil unrest involving a heavy death and injury toll.36

The existence of migration flows, either actual or potential, have important consequences for the operation of the labour market and the determination of regional wage rates. Ireland, North and South, have large pools of potential emigrants at home and potential return migrants overseas. These migration flows are sensitive mainly to regional Irish/British unemployment and wage differentials, although empirically unemployment differentials appear to be the more important driving force. Consequently, expansion of employment in either Irish region is likely, in the long run, to reduce emigration much more than it will reduce unemployment.37

In the 1980s, the historical relationship between aggregate Southern and British unemployment rates broke down, but Honohan (1992) argued that British unemployment rates continued to exercise a dominant role on Southern male unemployment rates in the long-run. However, the equilibrium differential appeared to be increasing over time.38 One possible interpretation for this lay in the fact that unemployment benefit, assistance and other social welfare rates in the South, even if at a lower level than British rates, had risen faster than those in Britain. This was a factor of critical importance in relation to the Southern unemployment problem.

Thus, while the unemployment differential did not appear to be beyond the influence of policymakers, this indicated the inadequacy of demand-led employment stimuli as a measure for reducing Southern unemployment as distinct from increasing employment.

The migration situation in the North was analogous to that in the South, except that the British Social Welfare system applied in the North for the duration of the ‘troubles’, thus lessening the propensity towards outward migration. Nor was regional policy any more effective in lowering the Northern unemployment rate than in the South. For example, Roper and O’Shea (1991), based their work on simulations using the NIMOD model of the North, analysing the effects of the higher than UK average Northern Regional Employment Premium (REP). They suggested that the initial benefits of the REP in boosting employment and reducing unemployment during the early years of its operation were offset later by reduced emigration. In fact they concluded that the longer term legacy of the labour subsidies of the 1970s was to increase the rate of unemployment subsequently in the mid-1980s, after the REP was abolished in 1979.

A further serious characteristic of Northern and Southern labour markets was that the fraction of those who were long-term unemployed (defined as greater than one year) had become very high over the 1980s (Figures 3.10a and 3.10b). Furthermore, in the North this was associated with pockets of long-term unemployment in areas that had suffered most from the ‘troubles’ (Figure 3.11a). The regional variation in unemployment rates was not so pronounced in the South (Figure 3.11b), at least not at the level of regional subdivision shown in the graph.39

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35 Annual net migration flows for the years 1990–94 were as follows (in thousands, where a negative sign indicated a net inward flow): 22.9, 2.0, –2.0, 6.0, and 10.0. With the exception of the year 1990, these flows are low by historical standards.

36 Ó Gráda and Walsh (1995) touch on another aspect of emigration from the North, namely the traditionally higher rate of emigration by Catholics compared to that of other religious groups, and the reversal of this pattern in the period 1971–1991 (op. cit., pp. 273–274).

37 The polar case of this argument is presented in Honohan (1984 and 1992). In his 1984 paper it was argued, using data from 1962–83, that the unemployment rate in the South tended to remain at about 5 percentage points above the UK level and that any shift in Southern and British unemployment rates away from the long-run equilibrium would induce migration flows that restore the equilibrium differential. The true position is probably a lot more complex.

38 By ‘equilibrium differentia’ unemployment we mean the ‘gap’ between Southern and British unemployment rates above which net outward migration flows are triggered.

39 One would expect, of course, to get greater variation in unemployment rates the smaller the regions/areas analyzed.

40 Issues relating to regional concentration and agglomeration effects will be taken up in Chapter 5 below.
The causes for the high rates of unemployment, North and South, were complex and only imperfectly understood. For example, Honohan’s simple model (see above) asserted that this was just reflecting the state of high British unemployment. Barry and Bradley (1991) advanced more complex reasons for the South, asserting that the high natural population growth rate (with knock-on consequences for labour force growth), the high tax increases of the first half of the 1980s, and the generally depressed state of the post-OPEC II world economy combined in roughly equal proportions to drive the Southern unemployment rate well above its historical parity with the British rate.

In summary, the deterioration of the Northern labour market from the late 1970s and throughout the 1980s was replicated in the South, where the over-shooting of employment creation after the fiscal expansions of the late 1970s merely delayed the inevitable retribution. In both regions a serious problem of structural or long-term unemployment emerged during the 1980s. Economic studies in the South indicated that unemployment rose initially as a result of world recession, higher taxes and population growth pressure. Sociological studies showed that a key characteristic of long-term unemployment was low skill levels, and that working class marginalisation arose from the rapid and uneven nature of class transformation in Ireland and changing patterns of emigration (Breen et al., 1990).

These Southern factors clearly operated in the North as well, but were overlaid by ‘community’ and
‘location’ issues whose interpretation has been an area of great controversy in Northern socio-economic research (McGarry and O’Leary, 1995). The fact that during these years a Catholic male was still almost two and a half times more likely to be unemployed in the North than his non-Catholic counterpart may have come about for a variety of reasons in addition to claims of past or present discrimination, but it certainly directed attention to a serious Northern problem of complex origins that had been at the heart of the ‘troubles’.

3.5 Paying the bills: public expenditure, taxation and deficits

The events leading up to Stormont being prorogued in 1972 may not appear to have been driven by economics, but had, in fact, many of their deeper roots in disparities of inter-community development, both real and imagined. The partial exclusion of the Catholic community from the North’s governance had serious consequences for economic policy making. In particular, most of the pre-1969 economic growth had been concentrated east of the Bann, since a passive industrial policy led naturally to firms seeking to benefit from the agglomeration economies of the greater Belfast area. Even within Belfast, segmented labour markets reinforced divisions between the two main communities.

Just as the almost contemporary entry of the South into the EEC in 1973 brought in its train a wide-ranging reform and liberalisation of many aspects of Southern life, so too did the imposition of direct rule facilitate labour market reforms and a greatly increased level of public expenditure aimed at raising the North to British standards of social services. However, given the previous low state of economic development in the North relative to Britain, parity of treatment, combined with the expansion of security-related expenditures, created a massive dependence on financial transfers from Britain. After the introduction of direct rule in 1972, any attempt to maintain even an approximate link between tax revenues and public expenditures in the North was broken and public spending since then has been related to need, defined by British standards, with no local revenue raising constraint. If a regional balanced budget had continued to be required, as it was to some extent during previous decades, Canning, Moore and Rhodes (1987) have suggested that some 50,000 less public sector jobs would have been sustainable, with less induced market sector employment as a consequence.

There is no disputing that during these decades the Northern economy became a financial burden on the British government and the region lost its previous self-sustaining capacity. The industrial sector of the North, the main source of wealth creation, stagnated (as shown above) and the public sector had to be financed through large-scale subsidies from London. Estimates of this burden vary, and one set of figures for the current public (regional) deficit and the overall state public sector borrowing requirement is shown in Figure 3.12(a) (with the South for comparison in Figure 3.12(b)).

What these estimates show is that had the North been forced to rely on its own tax receipts, generated from its own economic activity but assuming the level of activity and all other factors remained unchanged, the result would have been a series of unsustainably large current deficits and public borrowing requirements. Had the North been an autonomous economic entity and had all other factors remained unchanged, it would have been forced into a most severe adjustment as a result of these deficits. In fact, the situation would have been worse since the actual year-on-year regional public

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41 The fact that supporting Northern Ireland had become a burden on the British taxpayer is expressed most stridently in Rowthorn and Wayne, 1988, who go as far as using the term ‘work-house’ economy. However, what limited data are available indicate that Scotland and Wales were also in receipt of net transfers from London, albeit smaller ones on a per capita basis than in the case of the North (Blake, 1995).

42 In a study of the Northern public sector, Smyth (1993) stated that: “Expansion of the public sector of Northern Ireland has been a surrogate for autonomous growth, a buttress against political instability and remains the dominant feature of the region’s economy”.

43 The Northern estimates are based on an approximate attribution of UK indirect taxes to Northern Ireland, and assume that receipts are confined to revenue and other receipts generated from the North’s own economic activity (Bradley, 1990). No account is taken of the return to Britain in terms of increased sales to the North arising from the subvention.
sector deficits do not contain any element of interest charge, as they would if they had been financed by regional-based borrowing. In reality, the position of the North within the wider UK entity, and the policies pursued by British Governments, with their major redistribution dimension, meant that the North did not have to face these consequences of the hypothetical situation just considered.

**Figure 3.12(a): Regional current deficit and ‘borrowing requirement’: North**

Whereas the link between tax revenue and public expenditure in the North, considered as a separate region, was broken during these years, policymakers and taxpayers in the South enjoyed no such luxury. For as long as British taxpayers accepted the current system of financing the Northern deficit, the deficit was only a residual item of limited economic consequence (McGregor et al., 1995). Furthermore, the greater than average public expenditure allocation to the North, which together with the relatively smaller Northern tax base had given rise to the need for a large subvention, could be justified on the basis of the disproportionately adverse combination of political, economic and social circumstances prevailing in the North (McNally, 1995).

On the other hand, deficit-financing in the South always represents a very real constraint on public policy initiatives. Prior to 1980, public expenditure in the South grew rapidly, driven mainly by an increase in public sector employment. The ratio of public to private sector employment has however been consistently lower than in the North (see Figure 3.7 above). Even as Southern tax rates were raised, the public sector borrowing requirement (PSBR) moved deeper into deficit and reached almost 16 per cent of GNP in 1981. As a consequence, the debt/GNP ratio rose and an increasing portion of this national debt was denominated in foreign currencies. This meant that interest payments on much of the debt became a direct outflow from the Southern economy, and the devaluations of the Irish pound within the EMS during the first half of the 1980s further increased the debt burden.

**Figure 3.12(b): Current deficit and exchequer borrowing requirement: South**

During the early 1980s direct and indirect tax rates were raised sharply and capital expenditure curtailed, and these measures began to stabilise the national debt. However, by 1986 the Southern debt/GNP ratio rose to about 130 per cent of GNP. A further sharp adjustment was inevitable at this stage since the South had run right up against the budget constraint that the North has not yet had to face. The Southern fiscal adjustment, when it came after 1987, was extraordinarily and unexpectedly severe. Public expenditure fell, even measured in nominal terms, between 1987 and 1988. A combination of buoyant world demand, falling interest rates, and a devaluation of the Irish pound (£IR) against sterling within the EMS, boosted Southern growth and enabled the debt/GNP ratio to be cut significantly. Subsequently, the disciplines of the EMS (particularly prior to the broadening of the currency bands in August 1993) and the explicit commitments in the Maastricht treaty constrained the Southern government from moving away, even temporarily, from fiscal rectitude.44

44 The collapse of the Southern public finance position after the banking crisis of 2008 showed that the Maastricht treaty constraints were flawed and could be ineffective. The fiscal treaty being currently negotiated is designed to make the constraints legally binding.
Surprisingly, far from depressing Southern GNP, as might have been predicted by Keynesian analysis, the economy (and private consumption and investment in particular) grew very strongly in the years after the 1987 adjustment. The attention of international researchers was drawn to this apparently strange phenomenon. Giavazzi and Pagano (1991) claimed that there was actually causation underlying this correlation and argued that the South’s experience during the years 1987-90 was a case of “expansionary fiscal contraction”. However, this view is controversial and is widely believed to be mistaken.

Analysis of the Southern experience of fiscal restructuring during these years should prompt reflection on the effects of a possible curtailment of the Northern subvention and how the contractionary economic effects might be offset by expansionary effects on the expectations of the private sector and by strong growth in the economies of the North’s trading partners (especially Britain and Germany). These issues were examined by McGregor et al. (1995), who found that there were interesting and disturbing differences between the Southern response to restructuring and possible Northern responses, based on use of a Scottish economic model. In the absence of a buoyant British economy, McGregor et al. found that it is very difficult for any UK region to remove a regional public sector deficit. They pointed out, however, that the continuation of finance to fund such a deficit is, of course, a purely British policy concern, not subject to the international pressures that would influence the case of similar deficits in the Republic of Ireland. Box 3.1 summarises these points.

Box 3.1: Fiscal cutbacks: regions and nations

National economies must pay particular attention to the sustainability of their fiscal policies. For example, the Maastricht conditions for participation in EMU place limits both on the size of a nation’s public sector borrowing requirement (3 per cent of GDP) and the size of the maximum debt to GDP ratio (60 per cent).

Over the longer term, in small open economies the public deficit and the deficit on the current account of the balance of payments are unavoidably interlinked. Big public deficits cause big balance of trade and of payments deficits, as in the South during the late 1970s and the first half of the 1980s. Regions of nations are different. Those who take the expenditure and tax decisions which result in regional deficits also take the decision (at least implicitly) to finance them: sustainability in a regional context is simply about the political will of the national government to maintain transfers from the national government to the deficit region.

The national government’s willingness to finance a deficit region depends on non-economic factors (such as a desire for national cohesion), but is influenced by economic factors such as “the importance of being unimportant” (e.g. the North is small relative to the Britain) and “the importance of being unnoticed” (e.g. the Northern Ireland subvention can be clearly identified because of the manner in which the region relates to the national authority; Scottish or Welsh deficits are more difficult to measure).

To summarise, the Northern public sector deficit, as manifested in the need for ever larger subventions, served to sustain a high level of public and private consumption, public investment and imports. A corollary was the emergence of a chronic trade deficit, believed to amount to between 20 and 25

45 In an expansionary fiscal contraction (EFC), public expenditure cuts will reduce the need for future high taxes. This will be foreseen by rational, optimizing agents in the private sector who will immediately increase their consumption, possibly more than offsetting the contractionary effects of the cuts.

46 Bradley and Whelan, (1995) incorporated forward looking, or rational, expectations into a Southern macro-model (HERMIN) and found that the strong performance of private consumption could not be accounted for convincingly by expectation effects related to personal income and consumption. Rather, they suggest that it could very easily be explained by the unexpectedly strong growth in the world economy, particularly in Britain (the ‘Lawson’ boom), which occurred at the same time.
per cent of regional GDP by the early 1990s. The South enjoyed a trade surplus with the North of some £400 million at this time, even though it ran a trade deficit with the UK as a whole. This was, and continues to be, a case of beneficial spillover from the Northern subvention. The South had embarked in a similar expansion of public expenditure in the late 1970s and early 1980s, but without the benefit of free external finance. The subsequent economic costs of restructuring were massive, but were eased in the latter part of the 1980s by a boom in the world economy.

Given the massive injection provided by the British subvention, the financing of the regional public deficit was not a problem for the North. However, the existence of the deficit (and its associated trade deficit: see below) may also be linked to an underlying problem with regional competitiveness, associated with such factors as the sectoral coverage of Northern manufacturing, the continued concentration on the British market, and close links between British and Northern wages and costs. The fact that the South emerged from a similar case of twin deficits during the 1980s may hold interesting lessons for future Northern transformation.

3.6 Regional expenditure, competitiveness and the trade balance

In large, relatively closed economies the breakdown of GNP into its separate expenditure components is of central concern. For example, in the British economy the role played by private consumption and private house purchase in overheating the economy in the late 1980s was followed by a preoccupation with a consumer-led recovery in the 1990s. Indeed, there was a tendency to interpret the Northern experience during the UK recession of the late 1980s as a milder version of essentially the same type of wider national recession (Gudgin and O’Shea, 1992).

In their analysis of the Northern experience of recession, Gudgin and O’Shea (1993) placed great emphasis on consumer spending, in particular the influence of house prices and access to consumer credit on household behaviour. Three factors were advanced to account for the lower amplitude of cyclical fluctuations in Northern Ireland and the consequential mildness of the recent Northern recession:

a) The absence of a speculative property boom equivalent to that of Britain between 1986 and 1989;

b) The relatively larger Northern public sector, although this was largely discounted as an explanation by Gudgin and O’Shea;

c) The lower exposure of Northern manufacturing to the depressed British markets and a wage-cost competitive advantage.

However, the Northern Ireland Economic Council (NIEC) interpreted the latter two of these factors as representing an underlying structural weakness which would be likely to be further exacerbated when the British economy moved into its recovery cycle (NIEC, 1993). Furthermore, an excessively strong focus on the behaviour of internal regional consumer demand is not appropriate to the economic circumstances of a regional economy that is as open as that of the North. Southern analysts, in their efforts to isolate the primary medium-term driving forces of the South’s economy, placed much more emphasis on the primary role of external forces and the performance of the supply side of the exposed trading sector (with downstream secondary consequences, of course, for domestic demand) than on the behaviour of private consumption and private housing investment. Domestic demand factors were important, but their significance in the medium to long term was more as ‘effects’ rather than ‘causes’ in the economies of the North and South (see Bradley, FitzGerald and McCoy, 1991).

Until the mid 1970s the UK Regional Accounts contained data on imports into and exports from the North. Although no official trade data were available after 1974 – a disappointing situation, given the previous record of regional data collection – unofficial estimates can be made. For example, Rowthorn (1987) provides output–expenditure estimates for selected years in the period 1970–84 from which it is possible to calculate a residual net trade balance. Using available time series data, we also made such estimates and the resulting net trade balance is

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*In Figure 3.13 the Northern trade balance data for 1961–74 were taken directly from the publication The Trade of Northern Ireland, published by the Dept. of Commerce. After the publication of Northern trade data ended in 1974, the figures were estimated residually from the output–expenditure identity and are only rough approximations.*
shown in Figure 3.13 as a percentage of Northern GDP. It is seen that the Northern trade balance was almost in equilibrium in the early 1970s, just prior to the OPEC-I recession and before the civil unrest became serious. Subsequently there was a sharp deterioration that persisted into the 1990s.

**Figure 3.13: Regional trade balances, North and South**

The situation in a small open regional economy is very different from the large economy case. Such a region is so dependent on its export markets that the operation of the supply side of the economy is of primary concern, rather than the demand side. Here the difference between the North, as a region of the UK, and the South, as a sovereign state, becomes crucial. It is obvious that the Southern balance of trade and the current and capital accounts of the balance of payments place constraints on private sector behaviour and the operation of public policy. So, for example, when the excessively high public expenditure of the late 1970s and early 1980s led to deterioration of both the public sector borrowing requirement (with a consequential rapid accumulation of public debt) and of the current account of the balance of payments, severe constraints were placed on public policy (Figure 3.14).

The South’s macro-disequilibrium problems took almost a decade to bring under control and continued to constrain the role of public policy until well into the 1990s. This story is well known and need not be laboured (Bradley, et al., 1985; FitzGerald, 1986). Conversely, the South’s trade surplus that emerged in the late 1980s, and endured for many decades afterwards, was distorted by transfer pricing, i.e. the behaviour of foreign multinationals who mark up the input costs of their Irish branches to increase the fraction of their global output that is subject to the low Irish tax regime rather than the higher regime of the parent country (mainly the USA).

**Figure 3.14 Balance of payments and public sector borrowing requirement (PSBR): South**

The parallel problems of the implications of the Northern trade deficits are quite different from the South. On the one hand, the problems are less serious for the Northern economy simply because responsibility for any notional Northern element of a UK balance of payments deficit rests with the London government and not with the Northern authorities. However, the feedback from an adverse regional balance of trade is likely to be bound up in the way in which a sovereign nation like the UK handles regional policy and inter-regional transfers. In the case of the North, there are interesting parallels with the Mezzogiorno region of Italy, where fiscal integration and large-scale public transfers have led to the decline of the traded sector and to a state of semi-permanent dependency and underdevelopment (CEC, 1993).

Northern exposure to Britain as a destination for its external sales of manufactured goods by 1990 (34 per cent) was about twice as high as Southern export exposure to Britain (15 per cent), where both are measured in terms of the fraction of their regional output sold in Britain. Based on the survey data of Scott and O’Reilly (1992), Figure 3.15(a) shows the

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48 The terminology here needs to be slightly pedantic. Sales of Northern goods and services to Britain are termed ‘external’ sales. Sales of the same goods to the South, or to other destinations outside Britain, are termed ‘exports’.

destination of all sales of Northern manufactured goods in the year 1990, and 3.15(b) shows the equivalent data for the South, based on the 1990 Census of Industrial Production. It is seen that the North had an exposure amounting to 72 per cent of sales of manufactured goods within the economy of these two islands, while the corresponding figure for the South was at the lower level of 55 per cent.\textsuperscript{49}

Figure 3.15(a): Destination of exports and external sales: North

The emergence in the 1990s of such a large and persistent balance of trade deficit in the South would be symptomatic of a deeply uncompetitive regional economy. However, the position in the North is rather different. Although there has been considerable evidence of an underlying problem with cost competitiveness in the North (Borooah and Lee, 1991), the trade deficit was also a direct consequence of the massive external financing of the Northern public sector deficit by means of the annual subvention from Britain. Indeed, the two explanatory factors – poor cost competitiveness and the need for external subvention financing – are interrelated.

The South’s data for North-South trade illustrated the emergence of the large trade deficit run by the North with the South, as shown in Figure 3.16. Prior to the 1960s, the balance had been in favour of the North, but a modest deficit emerged during the 1960s and 1970s, a time when the South itself moved towards a serious balance of trade deficit with the rest of the world. However, a large trade deficit in favour of the South emerged in the early 1980s, and persisted into the 1990s, when it amounted to between £IR 300 and £IR 400 million, i.e. between 1 and 2 per cent of Southern GNP.\textsuperscript{50}

Figure 3.16: Northern net trade balance with the South

\textsuperscript{49} The narrowness of the Northern export base is illustrated by the fact that a small number of major exporters were responsible for a large proportion of all exports: the three largest exporting firms accounted for 40 per cent of all exports and the ten largest for 54 per cent.

\textsuperscript{50} It would be interesting to estimate how much of this Southern trade surplus with the North arises out of the North’s subvention from Britain. Any reduction of the subvention would have serious consequences for Southern firms.
Based on these data, Scott and O'Reilly, 1992 drew some interesting, if pessimistic, conclusions on the prospects for faster Northern and Southern growth based on greater trade penetration. They pointed out that the existing level of sales between the two regions of Ireland appeared to be largely in line with the level of sales between other small European countries and their nearest neighbours. While they did not rule out all benefits of greater North-South trade penetration, their estimate of the likely job gains, at 7,500, was only one tenth of the estimate of 75,000 that had been advanced by the Dublin-based Confederation of Irish Industry.51

3.7 Costing the ‘troubles’

If a firm or an entire economy undergoes an unexpected serious contraction, and if the causes of that contraction can be clearly identified, then the task of policy makers in the private and public sectors becomes much easier should they wish to design and implement policies to reverse the decline. What were the reasons for the reversal of growth and sharp decline in Northern manufacturing performance in the 1970s, a performance that is in stark contrast with the relative success of the South? Three potential causes can be suggested:

i. The ‘troubles’, which became serious at just the time the Northern decline in manufacturing employment started to get serious;

ii. The weakening of regional and industrial policy in the UK, particularly after the election of a Conservative government in 1979;

iii. The slower growth in the world economy that followed the OPEC-I and OPEC-II world recessions.

In order to examine these hypotheses one needs to conceptualise a situation where some or all of the potential factors causing the economic decline take different paths to those of the historical record. Thus, for example, one might try to imagine a world where there had been no OPEC oil crises, or one where the ‘troubles’ had never broken out in the North.

Comparing the historical economic out turn (i.e. with the ‘troubles’ and the OPEC recessions factored in) to the hypothetical or counter-factual case (i.e. without the ‘troubles’ or the OPEC recessions) should permit the impact of the ‘troubles’ and the OPEC recessions to be identified.52

Analysis based on a simple counter-factual technique was used by Moore and Rhodes (1973) to evaluate the impact of regional industrial development assistance policies on Northern Ireland over the 1960s and the 1970s. Their approach had three stages:

Stage 1: Assume each Northern industry grows at the aggregate UK industry rate, and define this as causing an expected level of employment (E) as distinct from the actual level (A).

Stage 2: Divide the period into a (prior) ‘policy off’ period and an active ‘policy on’ period. Extrapolate the ‘policy off’ evolution of the difference between E and A above into the ‘policy on’ period.

Stage 3: The effects of the operation of regional policies during the ‘policy on’ period is derived by comparing the actual Northern-UK difference (from (i) above) and the hypothetical extrapolated Northern-UK difference (from (ii) above).

Using this approach, Harris (1991, pp. 70-73) suggested that between 1960 and 1971 an extra 33,000 jobs were created in the North through the operation of regional industrial policies, but by 1983 the net increase had fallen to zero. However, Harris is critical of this approach for two reasons. First, the methodology assumes a zero sum game, where extra jobs in the North are at the expense of jobs elsewhere in the UK. Second, the methodology produces a ‘catch-all’, and is unable to distinguish component policy effects or other non-policy influences, such as the three listed above.

The approach was modified by Harris to take account of the ‘troubles’ in the North as follows. For the period prior to the troubles (1961-69), the difference between actual and expected performance for the

51 We return to the issues involved in evaluating potential gains from increased North-South trade later.

52 Sophisticated computer models are sometimes used to lend credence to this type of hypothetical scenario analysis. Simpler approaches can also be used, based on very crude assumptions. No analysis of the Northern ‘troubles’ has ever been carried out using formalized computer models of the economy.
North (from Stage 1 above) was compared with the differences for the other development assistance areas of Britain, and a formal statistical relationship was derived. This relationship was then used to predict a hypothetical ‘no troubles’ scenario for the subsequent period 1970–83 for the North on the assumption that changes in the relative effectiveness of policy in Northern Ireland and in the other British Development Areas would have been exactly the same in the 1970s in the absence of the civil unrest. Hence, all Northern under-performance in manufacturing employment was attributed to the civil unrest.

The results of this analysis suggested that Northern regional policy created some 22,000 net new jobs between 1960 and 1983, and that the civil unrest was responsible for the loss of about the same number of jobs (Harris, 1991, pp. 164–165). Similar estimates were derived using this methodology by the Northern Ireland Economic Research Centre (NIERC, 1990) and Rowthorn (1987). However, Harris pointed out the dangers of attributing all of the post-1969 difference between developments in British assisted areas and the North to the ‘troubles’. Other factors could have been at work, such as lower Northern efficiency and cost competitiveness, and the effects of the ‘troubles’ may have been minimal (Harris, 1991, p.165).

A second, much simpler approach narrowed the focus to the public expenditure aspects that were most directly related to the ‘troubles’, such as policing, military, prisons, etc. (Tomlinson, 1994; DKM, 1994). So, for example, a counter-factual assumption could be made that in the absence of the ‘troubles’ the level of security expenditure in the North would have been similar, on a per capita basis, to that in the rest of Britain. The difference between the (low) counter-factual security and the (high) actual expenditure is assigned to be the ‘cost’ of the ‘troubles’ for this particular element of public expenditure.

Both approaches have serious problems. The first (economy wide) approach tends to explain every difference between the counter-factual and the actual as being ‘troubles’ related, even when there may have been other important factors at work that were quite unrelated to the ‘troubles’. The second (narrow public finance) approach may simply miss wider economic disruptions that could have caused more damage than the higher level of ‘troubles’ related public expenditure. Applications of the second approach have also been used to identify the public expenditure ‘peace dividend’, basically by using the ‘no troubles’ counter-factual to estimate public expenditure savings for the future, rather than public expenditure costs for the past (NIEC, 1995). Obviously all such ‘peace dividend’ estimates suffer from the same problems as the ‘troubles’ estimates.

For example, background assumptions made in the calculations presented by KPMG (1995) in their analysis of the short term economic consequences of the peace are consistent with a mixture of post-peace separate and coordinated development scenarios. The crucial effects concerning the rundown of security spending and its reallocation to other areas of the public and private sectors were mainly of concern to the internal management of the Northern economy, within existing policy institutions, although they were not entirely without spillover impacts on the South (KPMG, 1995, pp. 39–56). Other beneficial effects associated with inward investment and tourism operated against a background of business cooperation and involved a certain element of public policy coordination (KPMG, 1995, pp. 23–34).

The main KPMG results, in terms of their employment effects, are illustrated in Figure 3.17 below. Four aspects need to be highlighted.

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53 The notation “CF” denotes a simple ceasefire in the absence of any political arrangements of the Belfast Agreement kind. In defining the scenario for ‘Peace and Political Agreement’ (PPA), the KPMG report states: “Under this scenario, it is assumed that there is decisive progress towards a political settlement within two to three years and, from an early stage, there is a perception that such a settlement will be reached. This scenario makes no assumptions about the details of such a scenario. The key assumption is that investment decisions in industry and tourism are taken without any associated risk-premium, as assumed to continue to apply under the ceasefire option” (KPMG, 1995, p.14, our italics).
First, both peace scenarios (‘ceasefire’ - CF - and ‘Peace and Political Agreement’ - PPA) generated substantial employment gains in private sector activities such as foreign industry locating in the North, tourism, increased cross-border trade and indigenous industry (see Figure 3.18). The more modest Southern gains were associated with growth in a range of market services (including tourism), indigenous industry, public expenditure savings and agriculture. Second, substantial job losses were associated with the reduction in the size of the Northern security forces. Third, if the public expenditure savings that resulted from the reduction in the security forces were ‘recycled’ into essentially public employment projects, then a net increase in public employment would result if the cost of each job created was assumed to be much less than the cost of the average senior job lost. Finally, employment increases in the public sector were classified into those that were permanent (i.e. would be sustained even in the absence of public subvention) and those that were temporary (i.e. would vanish if the public subvention were to be discontinued).

The total net gains North and South, before reallocation of Northern security-related savings to mainly public sector job creation elsewhere in the North, are illustrated in Figure 3.19, where the mid-range estimates were taken as representative of the likely outturn.
The crucial issue in evaluating longer term economic consequences of the KPMG analysis of the peace dividend is to ask whether that dividend would be likely to bring about a one-off transitional change in the level of activity, or whether it held out prospects of launching both North and South on a path of sustained faster growth. However, the Northern business sector and policy makers were very likely to experience considerable difficulty in implementing an economic planning process that would lead to ‘a rebirth of enterprise’ in a situation where they continued to be locked into British policy norms. At the same time we suggested in the previous chapter that the Northern economy was only imperfectly integrated into the supply-side of the much larger British economy. In terms of British economic links, this appears to be the worst of all possible situations for the North. If, in addition, the North remained unlinked to the somewhat larger Southern economy, it might lack the critical size to facilitate and sustain a purely Northern virtuous circle of growth.\(^{54}\)

The KPMG report draws attention to another possible gain for North and South that could conceivably be initiated even under a ‘separate development’ scenario, namely gains from increased cross-border trade. Here there is considerable conflict between the very optimistic calculations of the Confederation of Irish Industry (now IBEC) and a more pessimistic analysis of the NIERC (CII, 1990; Scott and O’Reilly, 1992). The key points at issue are set out in Box 3.1.

**Box 3.1: Could there be a North-South trade bonanza?**

Combined sales by manufacturers North and South within the island of Ireland market was about £6 billion (in 1990). The CII claimed that there was a potential to increase this to £9 billion, thereby creating 75,000 new jobs (CII, 1990). The claim was based on the following three assumptions:

(i) Northern manufacturers could sell as much in the South, in per capita terms, as they presently sell in their domestic market. A similar assumption is made about Southern sales in the North.

(ii) All these increased sales displace imports from outside the island, rather than from other Irish producers.

(iii) Every extra job created in manufacturing induces an extra 1.3 jobs in the rest of the economy, i.e. the employment multiplier is 2.3.

Scott and O’Reilly (1992) rejected assumption (i) and argued that the then level of sales between the two regions of Ireland appeared to be in line with the level of sales between other small European countries and their nearest neighbours (e.g., Denmark’s sales in Sweden). Furthermore, sales by the North were £110 per head of Southern population, compared with £37 per head in Britain.

They regarded assumption (ii) as being very optimistic, particularly if sales displace the goods of the other region (e.g. food products). A more realistic target might be to double cross-border trade from £1 billion to £2 billion, and with 50 per cent displacement, to generate a net increase in output of £0.5 billion.

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\(^{54}\) The experience of Belfast in the second half of the 19th century, examined in Chapter 2, provides some optimism for a late 20th or early 21st century emulation of that previous success. However, a very particular configuration of circumstances supported rapid growth in the north-east region of Ireland in the 19th century and it is difficult to see that these might be repeated today in the context of a British economy that is less vibrant or dynamic.
Finally, they regarded a value of 1.3 as a more realistic multiplier, where a net increase of £0.5 billion would generate about 5,700 manufacturing jobs and increase employment by 7,500. However, O’Malley (1995) found that each manufacturing job in the South supports approximately one more job in the service sector, implying a multiplier well above 1.3 but below 2.

Since the economies of these islands (i.e., Britain, Northern Ireland and Republic of Ireland) are quite closely interrelated through trade in goods and services and labour flows, in Figure 3.20 we compare and contrast sales of Northern and Southern produced manufactured goods per capita of population in the market served, for the two Irish regions and Britain. Figure 3.20 shows that home sales of Southern goods per capita exceed home sales of Northern goods per capita by a factor of almost two. Furthermore, sales of Southern goods in the North, per capita of the Northern population, are about three times the value of sales of Northern goods in the South, per capita of the South’s population. The direction of the excess is easy to rationalize in terms of the larger size of the Southern economy and the trade deficit that the North presently runs with the South. However, the actual magnitudes are a little surprising and suggested scope for future growth of Northern penetration of the Southern market.

The most outstanding feature of the Scott and O’Reilly data is the dramatic difference between home sales per capita in each separate Irish region and the much lower sales per capita in the adjoining region (Figure 3.20). Scott and O’Reilly’s analogy with Denmark and Sweden is perfectly relevant if we continue to regard North and South as being separate political and commercial jurisdictions with no likelihood of ever changing what has been until very recently a strained and remote relationship. In the past, the Northern and Southern markets were segmented for many reasons, the most basic being an understandable fear, prior to the ceasefires, of travelling in the other jurisdiction to build up necessary commercial contacts.

**Figure 3.20: Sales of manufactured goods per capita of population served (£ per head)**

In the aftermath of peace the previous reluctance of individuals and groups to travel freely in both regions gradually came to an end. Massively increased North-South tourist flows, and the pressure on the (then) limited capacity of the Belfast-Dublin road and rail links, bore testimony to this process of rediscovery. However, there remained other reasons for continued market segmentation related to such issues as the different fiscal and monetary/exchange rate regimes, and the separate and parallel functioning of public sector agencies in the South and the North, with their obvious implications for higher business transactions costs when working in both markets.

D’Arcy and Dickson (1995) described the rapid progress that was made during the 1990s in addressing the problem of North-South market segmentation. Southern literature quickly started to target the dissemination of information on Northern marketing opportunities. An ambitious joint ABT/IDB initiative, supported by the International Fund for Ireland, resulted in the publication of a detailed marketing guide to fifteen key product areas.

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55 It is important to take the relative sizes of two trading regions into account in any comparisons of trade integration. A small nation like the South has a limited supply capacity and is never likely to appear as large in per capita sales into a major economy like Britain.

56 The understandable remoteness of the relationships and contacts of Northern Unionists with the South is paralleled by a more surprising remoteness between Nationalists and the South (O’Connor, 1993).

57 An interesting account of the attitudes of a small sample of firms already operating on an all-island basis is provided in an appendix to D’Arcy and Dickson, 1995. Not all aspects of North–South policy and institutional differences were seen as negative, and some firms displayed great ingenuity in getting the best of both worlds!
facilitating greater North–South trade penetration as well as providing opportunities for import substitution. Joint promotions of Irish products overseas were organised, and strategic alliances were encouraged between Northern and Southern firms. The distribution system on the island, which had tended to deal with the North as part of the UK and with the South as a separate region, was gradually integrated on an island basis (Molloy, 1995). In the longer term, the development of strategic transport links on an integrated all-island basis would be a powerful force for removing North–South market segmentation (Smyth, 1995).

The potential gains from greater North–South trade interaction may be modest relative to the potential gains from greater penetration into wider world markets, including British markets. Nevertheless, there were gains to be made from intra-island trade in circumstances that would assist in strengthening the competitive performance of all businesses on the island. North–South trade improvement on the island was not an alternative to East–West trade improvement, but is entirely complementary to it. It was a transitional process that would produce gains in the short term and, by strengthening its supply side, would help to position the island economy to make further advances in world markets.

The crucial economic issue in the future of North–South relations concerned whether developments like those described above should be left to the market or to piecemeal and ad hoc policy interventions. Some developments could be market led (e.g. trade promotion), but others (e.g. transport infrastructure) required a greater level of formal North–South coordination. Initial moves towards policy coordination on the island were modest and more related to individual organizations (such as the island tourist boards and trade promotion agencies) than to any deeper policy redesign and harmonization. Nevertheless, the obvious enthusiasm of the private business sector for treating the island economy as a unit brought its own pressures on public policy makers to move towards deeper cooperation and harmonization, thus opening the way for a transition to a more shared and coordinated form of faster island growth.

In spite of all the research that has been carried out on the Northern economy before and during the ‘troubles’, our review of the literature on ‘costing’ the ‘troubles’ leads us to the conclusion that no firm answers can be given to questions concerning the relative contributions of the three causes of slower Northern growth and poorer performance that we listed at the start of this section. The published direct analysis of the impact of the ‘troubles’ on the whole Northern economy, on sectors or on the public finances in isolation, is seriously flawed and cannot be reliably used to isolate the ‘troubles’ from wider factors. The same applies to attempts to analyse the contribution of changes in UK regional policy regimes that came about in the late 1970s and the 1980s. Finally, the absence of widely accepted and reliable economic models of the Northern economy have made it difficult to study the impact on the North of economic developments in the rest of the world. Few deny that the ‘troubles’ inflicted serious economic damage on the island economy, in addition to the human suffering and trauma. But it is impossible to quantify the exact extent of that damage.
Part II The Present
Chapter 4: The Belfast Agreement and the island economy

4.1 Introduction

The major importance of the 1998 Belfast Agreement was that it facilitated the restoration of devolved government to Northern Ireland in the form of a power-sharing assembly with a mainly local policy remit. Similar devolved powers were granted to Wales and Scotland, so all three ‘nations’ within the United Kingdom have been placed on much the same policy footing. However, the devolution of power to the North was a more fraught process since it was accompanied by an effort to introduce an element of ‘island’ governance as well as an internal Northern settlement.

Few Irish economists were interested in cross-border issues in the decade preceding the Belfast Agreement. For those who were, their investigations tended to focus on the aggregate behaviour of the two regional economies of the island. Of course there was some understanding that inside the two separate island jurisdictions there was a considerable degree of economic and social heterogeneity. But to the extent that island issues came onto political and economic agendas, they prioritised the desirability of normalising relations at a ‘national’ (Dublin–Belfast–London) level. Anything of relevance that went on inside each component economy, and particularly in the cross-border region, was left to a future, more settled period. Internal, sub-regional issues were not considered to be germane to the overriding focus on normalising North–South relations. Indeed, they may even have been thought to be unhelpful and distracting barriers to the encouragement of island re-normalisation.

The success of the Belfast Agreement in bringing an end to widespread violence is widely acknowledged and praised. Nobody questions that success and its crucial importance as a necessary precondition for everything that followed in the wake of the Agreement. However, we can see now with the aid of hindsight that the decade following the Agreement was characterised by excessive optimism on the part of Northern policy makers, often accompanied by a benign passivity on the part of Southern policy makers, when facing into the challenge of repairing the human, social and economic ravages of three decades of violence, which caused the degrading of much of the Northern productive sector with damaging spillovers for the Southern border counties. After the Agreement was signed, the confident assertion was made that Northern Ireland plc was now ‘open for business’. There was much talk of a ‘peace dividend’. Generous re-construction finance would be forthcoming from the UK Treasury, from Europe and from America. Foreign direct investment would flow in again, just as it had in the decade that preceded the 1968 outbreak of violence. The underlying historical entrepreneurial culture of Northern Ireland would bounce back. Prosperity would trickle down automatically from the major urban centre of Belfast to more peripheral Northern border regions. In many ways the optimism in the air was similar to that of the newly liberalised states of Central and Eastern Europe when they were released from the constraining shackles of Communism and central planning in 1989. And the disillusion that followed in its wake was also similar, as the difficult challenges of renewal became manifest.

The unfortunate reality was that as a result of three decades of violence, the Northern economy had become, and still remains, very directly dependent on the public sector, while much of its business sector had become indirectly dependent on public expenditure to sustain demand as well as being heavily reliant on subsidies and grants to keep it going. Some inward investment did come in the decade after the 1998 Agreement, seeking to benefit from Northern Ireland’s relatively low cost base, well educated labour force and good infrastructure. But it became clear that, in spite of their well intentioned and supportive rhetoric, foreign investors often took a more jaundiced view of conditions in the North, where the newly devolved power-sharing administration was very slow to get working and even slower to produce innovative programmes of social cohesion and regional economic development and reconstruction. There was peace, but the enduring and even increasing polarisation of communities into separate areas continued to cause
complications for the evolution of sub-regional strategies and for the smooth operation of the labour market. Northern Ireland plc may have been ‘open for business’, but the quest for renewed, private sector-led prosperity was not without its problems and difficult challenges.

4.2 Island economic governance issues: Strands 1 and 2

4.2.1 Internal Northern governance: Strand 1
The central aspect of the Belfast Agreement is Strand One, dealing with the internal political governance of Northern Ireland. The favoured position of the Unionist parties is for the North to continue as a constitutional part of the UK, with minimal formal provision for any North–South political and economic policy structures. The Belfast Agreement established a Northern Assembly and, discounting for the present the important North–South implementation bodies of Strand 2, the Northern economy will continue to function as a region of the UK in much the same way as do Scotland and Wales. This means a perpetuation of the situation where the standard of living that the North experiences is underwritten to a very large degree by the British taxpayer and where the size of the public sector, and the role played by financial transfers and subsidies, is likely to perpetuate a situation of economic dependency into the medium term.

From a Unionist perspective, being a region of the UK carries with it an automatic guarantee of parity in the quality of public services. Having started from a lower base and having experienced exceptional economic difficulties during the conflict, Unionists feel that it quite natural that the North should require an extended period of ‘catch-up’ during which it will be entitled to attract a greater per-capita subvention than more prosperous UK regions. Furthermore, they argue that this dependence on transfers from Britain acts as a bulwark against any possibility of a ‘united Ireland’, given the inability and/or unwillingness of southern Irish taxpayers to take over the subvention and thus sustain the standard of living in the North at its current level.

Such a regional, peripheral framework has implications for the economic governance of the North, with national (UK-wide) policy making centralized in London and only rather limited real local policy autonomy. But in the global economy, economic logic commonly cuts across political/national boundaries while leaving these boundaries intact. Political realities, as well as geographical proximity to the South, have presented the North with what might be termed a ‘Southern’ problem, the resolution of which was recognised by many as requiring creative and innovative movement in both the spheres of political and economic governance (Bradley 2001). Neither independence nor incorporation into the UK appear to offer an optimum economic solution for the North. The former seems quite infeasible for the foreseeable future. The latter is quite feasible (indeed, it represents something approximating the status quo), but it leaves political problems unsettled, has led to a Mezzogiorno situation of chronic economic dependency, and places barriers and constraints on relationships with the South that we examine in later chapters of this report.

Because of history, any exploration of the North’s economic relationship with the South is bound to be contentious. A comparison with the situation of other EU regional economies provides an alternative, perhaps less contentious, framework that offers the potential for new insights into the future economic development of the North. However, as noted in Dunford and Hudson (1996), there had been little or no pre-Belfast Agreement examination of the consequences of placing the North fully in the EU regional economic context, or government policy documents that were explicitly influenced by policy developments elsewhere in Europe.

Dunford and Hudson (1996) examined the North alongside the political and economic governance of four different, but more successful, European regions: Jutland in Denmark; Rhone-Alpes in France; Saarland in Germany; and Abruzzo in Italy. They concluded that the most active regional governments were to be found in the most economically successful regions, and that their ability to exercise a high degree of pro-activity was predicated upon their location within nation–states characterised by decentralised systems of governance. Successful regions tended to be characterised by distinctive forms of local regulation and governance. They also had systems of governance which embraced enabling and facilitating institutions within the local state and civil society, as well as bridging the permeable boundaries between them and adjoining regions and states. Part of the problem of less
successful regions (such as the North) was that they were locked into institutional structures that were relevant during some previous phase of successful economic development, but which came to constitute a barrier to moving onto a new development trajectory.

What was revealing in EU regional comparisons is that inter-regional co-operation does not necessarily require complete, or even extensive, harmonization of economic policies. Rather, it thrives where policy differences are fully understood and are made more transparent against the background of removal of non-tariff barriers to trade through the implementation of the Single European Market. Such findings suggested that mutually-beneficial North-South as well as East-West co-operation might be built along similar lines if contentious political issues could be resolved. Indeed, the Belfast Agreement pointed exactly to this conclusion and it is to that we now turn.

4.2.2 North–South co-operation and the Belfast Agreement: Strand 2

The corner stone of Strand Two of the Belfast Agreement is the North South Ministerial Council whose remit was described as follows:

(…) to bring together those with executive responsibilities in Northern Ireland and the Republic of Ireland, to develop consultation, co-operation and action within the island of Ireland – including through implementation on an all-island and cross-border basis – on matters of mutual interest within the competence of the Administrations, North and South.

This Council was designed to meet in different formats: in plenary format twice a year, and in specific sectoral formats on a regular and frequent basis. The remit of the Council includes the exchange of information, discussions and consultation on areas of co-operation; the use of best endeavours to reach agreement on the adoption of common policies in areas where there is a mutual cross-border and all-island benefit; to take decisions by agreement on policies for implementation separately in each jurisdiction in relevant meaningful areas; and to take decisions by agreement on policies and action at an all-island and cross-border level to be implemented by North/South bodies to be established.

During the transitional period between the elections to the Northern Ireland Assembly and the transfer of power to it, it was intended that representatives of the Northern Ireland transitional administration and the Irish Government, operating as the North South Ministerial Council, would undertake a work programme, in consultation with the British Government, with a view to identifying and agreeing areas where co-operation and implementation for mutual benefit could take place. In an annex of Strand Two in the Belfast Agreement, twelve possible areas where either new North/South ‘implementation bodies’ or the use of existing institutions and co-operative arrangements could be used are listed. As part of its work programme, the Council was to identify and agree at least six matters for co-operation and implementation in each of the following categories:

a) Matters where existing bodies would be the appropriate mechanisms for co-operation in each separate jurisdiction;

b) Matters where the co-operation would take place through agreed ‘implementation bodies’ on a cross-border or all-island level. The implementation bodies would have a clear operational remit and would implement all-island and cross-border basis policies agreed in the Council.

The Council was also to consider the EU dimension of relevant matters, including the implementation of EU policies and programmes and proposals under consideration in the EU framework. The views of the Council were also to be taken into account and represented appropriately at relevant EU meetings. Finally, the new Northern Ireland Assembly and the Irish Oireachtas (Parliament) were to consider developing a joint parliamentary forum and consideration was to be given to the establishment of an independent consultative forum appointed by the two Administrations, representative of civil society, comprising the social partners and others with expertise in social, cultural, economic and other issues.

The political sensitivities involved in drawing up the list of possible areas for North–South co-operation were clearly reflected in the highly technical and tightly drawn nature of the suggested functions. In particular, the list seemed to reflect
political compromises made between parties in the negotiations leading up to the Belfast Agreement. This is seen most clearly, for example, by the absence of significant economic and industrial matters, in particular issues such as the promotion of industrial development and the attraction of inward investment.59

Following intensive negotiations an agreement was reached on 18 December 1998 between David Trimble, leader of the Ulster Unionist Party, and Seamus Mallon, Deputy Leader of the SDLP, on matters of North–South co-operation and cross-border policy implementation. The Trimble–Mallon statement of 18 December listed six North–South implementation bodies: inland waterways, food safety, trade and business development, special EU programmes, languages, and aquaculture and marine matters. Finally, the Trimble–Mallon statement contained an initial list of six matters for North–South co-operation through the mechanism of existing bodies in each separate jurisdiction. These included non-controversial aspects of transport, agriculture, education, health, the environment and tourism.

A better understanding of the outcome of the Trimble–Mallon talks can be obtained from an earlier statement of Mr. Trimble where he set out three principles that his party intended to apply to the selection and design of the cross-border implementation bodies. First, any new body should have demonstrable advantages both for North and South. Second, the North’s ability to develop a vibrant and competitive economy on a sound basis should not be impaired. Third, the North’s identity should not be submerged in a new all-Ireland identity. The Belfast Agreement enshrined the principle that the people of the North consent to its continued existence within the UK, and others, including nationalists, endorsed the legitimacy of that choice. While the logic of the first point – the necessity of mutual benefit – is obvious, the defensive logic of the second and third points – access to local policy instruments and regional identity – stands in contrast to the latest thinking on the dynamics of regional economic development where national and regional governments have a series of vital roles to play in promoting economic growth and development (Porter, 1998). So the cross-border institutions set up under the Belfast Agreement, however beneficial, left many unresolved economic development issues and appeared to have had a mainly political rather than an economic rationale.

4.3 The new regional context for the island

Economic development seldom takes place uniformly over space or over time. Over space, it is well known that there are large and persisting divergences between the internal regions of many EU member states, and that these internal divergences can often be greater than external divergences that exist between the national economies of the member states (CEC, 2007). Over time, countries and regions tend to experience specific bursts of growth that sometimes permit them to catch up with wealthier economies, or periods of decline when they may fall behind. These processes can be seen at work on the island of Ireland, and in the regions and sub-regions of the island economy.

There are many factors that affect the development potential and performance of regions of national economies, such as geographical size, distribution of population, educational attainment and experience of the local labour force, accessibility to important external markets, competitiveness and profitability of local markets, and the degree of innovation displayed by its local entrepreneurs. Recognising that such regional disparities in economic performance have important social and political implications, governments of nation states usually operate internal regional or spatial policies that attempt to guide market processes towards more equitable spatial outcomes.

Regional policies can be classified under two main headings. Under the first heading, policy makers put in place some form of redistribution of income from richer to poorer regions, operating mainly as direct income support (e.g. pensions and unemployment assistance) and as wider social welfare support.

59 It is interesting to note that the business community – North and South – argued that the Belfast Agreement did not go far enough in facilitating the economic and business initiatives that they had been promoting on a cross-border or island basis [IBEC/CBI, 1998]. At least in this context the business community appeared to be well ahead of politicians in seeing the logic of more extensive North–South economic co-operation.
Such policies tend to operate as automatic spatial ‘stabilizers’, in the sense that they direct national resources towards regions that are lagging behind the national average and help prevent these regions falling below defined income or poverty thresholds. In advanced, developed states, this usually means that their highly productive urban agglomerations generate income that can then be used to supplement living standards in less productive, sparsely populated, rural areas. However, in less developed states, poor areas are themselves often densely populated, but lack the productive means of raising their standard of living in a context where people are sometimes prevented from migrating to more prosperous areas.60

Under the second heading, there is an explicit effort to design policies whose objective is to alter the spatial arrangement of production activities in a state in order to promote their location in poorer regions in cases where purely market-based solutions might favour their location in existing agglomerations in richer regions. Examples include publicly financed investment programmes in regional physical infrastructure, with the aim of making lagging or peripheral regions more attractive to producers.61 It would also include special tax breaks for lagging regions as well as efforts to direct inward investment away from the prosperous regions that have large population agglomerations towards more peripheral, rural regions. Getting the optimal balance between the equity-based objectives of income redistribution (the first heading) and the efficiency-based objectives of mainly market-based, spatial outcomes (the second heading) is a difficult and delicate task.62

The challenge of designing internal regional policies in any state is made more complicated by the presence of geographical features or international borders which, by their very nature, usually introduce additional barriers that serve to impede further the normal operation of markets within and between regions. Improved communication infrastructure can alleviate geographical barriers (road, rail, sea and air links; telecommunications advances), but these investments make heavy demands on public expenditure that cannot always be satisfied. However, many of the most obvious barriers created by international borders between EU states have been largely removed as a consequence of the market integration process that took place in the EU during the 1980s and early 1990s. Tariff barriers were dismantled during the early stages of the establishment of the pre-cursor to the EU (i.e. the Common Market). Non-tariff barriers – such as customs border controls, public procurement restrictions, technical regulations and fiscal frontiers – were systematically reduced and eliminated during the process of creation of a single European market that was formally initiated in 1992 (Cecchini, 1988; Monti, 1995). The time-wasting traffic queues at European borders and almost all of the other major distortions of trade between EU member states are now a thing of the past.

However, barriers to economic interactions persist, associated with enduring differences between national economic policies (tax rates, exchange rates), language, cultural and legal differences, and national customs, tastes and preferences.63 A modern type of barrier is related to the process of regulation within states, and differences in regulatory rules can impede cross-border business (InterTradeIreland, 2009). The consequences of such barriers can be particularly serious for cross-border regions. In contrast to regions that are distant from international borders, the economic and social hinterland of a region that includes an international border will, of necessity, be in another country, where any enduring border-related differences and barriers will be at their most acute.

In addition to all the above ‘normal’ economic and social factors, the border between the North and South has been associated with a wide range of serious and long-lasting barriers created by its

60 National income distribution is often supported by international aid, but usually only in less developed countries.
61 Within the EU, direct financial and other assistance in the form of Structural and Cohesion Funds are provided to ‘lagging’ member states and regions to develop productive potential.
62 An example where this balance was not achieved is the Mezzogiorno region of Southern Italy, where over half a century of post-World War 2 income support has resulted in a state of semi-permanent dependency on income support from the richer Northern Italian regions. Development economists refer to this as the ‘Mezzogiorno problem’.
63 A modern type of barrier is related to the process of regulation within states, and the fact that differences in regulatory rules can impede cross-border business (InterTradeIreland, 2009).
troubled history. Of course, after the 1920 partition of the island, the Irish border was never as physically impermeable as the ‘Iron Curtain’ that divided post–World War 2 Europe into east and west. But the Irish border gradually became psychologically impermeable as pre-partition communication and business connections withered, and the modern physical infrastructure that was put in place on the island over the decades after partition became focused on Belfast and on Dublin, with a general neglect, and even distortion, of previous, organic North–South inter-linkages.

In the post–Belfast Agreement era of peace and devolved government in the North, and in the context of a range of functioning cross-border institutions, the cross-border area in the island of Ireland has now begun to resemble more closely other ‘normal’ cross-border regions of the EU. This onset of normality has brought considerable benefits and has been accompanied by a growth of interest in the economy of the immediate cross-border region and its performance relative to other, more central, regions of the island. But it has also served to expose some underlying and enduring problems that result from the intrinsic peripherality of the border region which are common to many other international cross-border regions. The specific form of the peripherality of the Irish cross-border region has many causes, some of which are due to geography (‘natural’ barriers), some to economic circumstances (‘policy’ barriers), and some have deep roots in history (psychological or cultural barriers).

The task of alleviating these underlying causes is more tractable today than in the past, mainly as a consequence of the new era of devolved government and peace in Northern Ireland and the improvement in inter-governmental relations between North and South. Nevertheless, the Irish cross-border region still faces some development challenges that are considerably more serious than those experienced by more centralised regions, or regions more closely linked to spillover benefits from dynamic activities in larger, urbanised centres of population on the island.64

4.4 The cross-border research challenge

Our primary aim in this work is to explore the current economic performance and future development potential of the economy of the Irish cross-border region. This region can be defined in various different ways, but it is initially convenient to align any definitions with existing administrative boundaries. One possible working assumption would be to take a definition based on counties or other sub-regions that contain the north–south border as at least some part of their perimeter (Figure 4.1). In the South, this would include five counties: Donegal, Leitrim, Cavan, Monaghan and Louth.65 In the North, it would include five of the six northern counties: Derry, Fermanagh, Tyrone, Armagh and Down, but would exclude Antrim.

Figure 4.1: The Irish cross-border counties

It is useful to distinguish between two conceptually different approaches to the study of the economy of the Irish cross-border region. In broad terms, the first

64 The spillover processes generated within dynamic urban centres are described in the work of Jane Jacobs, which will be used later to illuminate our analysis of the negative effects of the peripherality of the border region (Jacobs, 1970 and 1986).

65 County Sligo is so close to the border that it qualifies as an ‘honorary’ border county (and is treated as such by EU cross-border programmes like PEACE and INTERREG). Although it does not include the border in its boundaries, it is so close to the border that its economy is almost certainly heavily influenced by cross-border factors.
approach adopts the perspective of the region itself, and looks outward to the external encompassing economy. The second approach starts from a wider national or international perspective, and then looks inward towards the region. Both approaches have their respective strengths and weaknesses. Clearly the economic performance of a region can only be understood comprehensively by looking very closely at the detailed activities that are carried on within the region. But to adopt an exclusively regional perspective runs the risk of underestimating the extent to which regional performance and its future potential are highly constrained by policy decisions, economic events and other actions that originate outside the region, usually at a national level but also at the more remote international level, and over which the region has little or no influence. Most of these external factors can only be properly understood at the appropriate higher policy and governance level. However, if we wish to trace back the consequences of international and national policy actions and events to their specific local consequences, then we require detailed local knowledge of the regional economy. Our basic approach in this work is to try to keep both perspectives simultaneously on the table – bottom-up and top-down – and to use them to carry out a realistic appraisal of the performance and development potential of the cross-border region. However, for expositional purposes we feel that the story of the border region is initially best told by starting at the higher level of the UK and the Republic of Ireland, and working down to regional and sub-regional levels on the island of Ireland.

For many decades the economy of the Irish cross-border region (and, indeed, aspects of the wider island economy) have been studied mainly in terms of the high ‘costs’ of political turmoil and inter-community violence that disrupted and distorted economic development processes that emerged elsewhere on the island, North and South. After the ceasefires of the mid-1990s, and particularly after the signing of the Belfast Agreement in 1998, an excessively optimistic view tended to take root that these ‘costs’ would quickly vanish; that they would be replaced by a large-scale ‘peace dividend’; and that the border region would rapidly return to normality and participate fully in the (then) wider prosperity of the island. However, history, geography and policy fault lines between North and South seem to have left enduring negative legacies that we are now coming to realise are unlikely automatically to vanish in the new peaceful era in the absence of a detailed understanding of the characteristics of the region and the identification of ways in which its development and integration into wider island prosperity can be facilitated.

The fact that the first decade of post-Belfast Agreement North-South ‘normality’ has culminated in the worst global and national recessions for many decades is very unfortunate, and will almost certainly dominate many of the peace and devolution-driven beneficial economic and social forces that have begun to evolve in the cross-border region. The clear and present danger is that any weakness of the cross-border region could make it more vulnerable to the consequences of recession than other, stronger regions of the island. This makes it all the more important that the specific features and evolving nature of the cross-border economy be examined carefully. Here we can draw on the body of existing work that has already been carried out with financial assistance from such agencies as the Special EU Programmes Body, the International Fund for Ireland, Co-operation Ireland, InterTradeIreland, the International Centre for...
for Local and Regional Development (ICLRD), the Centre for Cross Border Studies (CCBS) and others. This work has tended to focus on the areas of local government co-operation, business partnerships, and socio-economic North-South database construction and harmonisation projects. One of our aims in the present work is to build on this existing work, drawing out its consequences for the economy of the border region.

The present research can be regarded as a kind of ‘second generation’ way of looking again at the Irish border, in the sense that it seeks to build on the fairly substantial body of existing research-based insights, but now looks in a more comprehensive way at the revival of the border economies in an era of peace, social stability and devolved government rather than in a palliative way, as was the case in the previous era of civil unrest, uncertainty and absence of any political consensus. The advent of the global recession of 2009-2010 and the slow growth of subsequent years certainly complicates this task, but does not fundamentally alter it. The challenge that we face is to examine the Irish border region from the more normal perspective of other economically successful, but often peripheral, parts of the island of Ireland as well as similar regions in Europe, where EU-driven market integration is providing a radical boost to areas that were previously hindered by peripherality caused in large part by border-related ‘fault lines’ and – in the case of Central and Eastern Europe – by an impermeable ‘Iron Curtain’ that effectively prevented East-West cross-border communications of any kind. In particular, we try to draw out issues that are common to ‘problematic’ border regions outside Ireland such as the Polish–German border, which shares some – but not all – of the characteristics of the Irish border.

Hence, our objective is to build on existing North-South research, but in a way that serves to make use of, and complement, existing technical/academic knowledge. At the present relatively early stage of the new era of devolved government, we consider it useful to examine the evolving situation from the perspective of mainstream economic and business performance. This might be regarded as a necessary step in the research, since it defines the context for the region. But it is also vital to be able to uncover and tell stories based on actual experiences taking place within the new economic and business perspectives that are opening up for the border region. In later stages of the work we document some of these stories and experiences in a more accessible way than the narrower, data based, analytic economic perspective. The two different perspectives – one mainly analytical and the other having a strong element of ‘narrative’ – are expected to yield different, but hopefully mutually reinforcing insights.
Chapter 5: Development strategy frameworks: what do they tell us?

5.1 Introduction

Systematic policy frameworks can help small nations and their regions to be smart with limited resources. They are essential in order to bring focus and synergy to the disparate policies that make up any modern national or regional development strategy. However, the experience in the island of Ireland has been that such frameworks at best will emerge as ex-post explanations of policy outcomes that were designed (or which emerged) ex-ante in a less formal, eclectic fashion. This is not an ideal situation, but is probably no less desirable than a slavish adherence to a rigid and prescriptive strategy that might turn out ex-post to be completely inappropriate. So strategic frameworks have an important role to play, particularly when they assist in explaining particular outcomes, in identifying potential barriers to development, or in distilling the lessons of development experience in nations and regions that may share some common characteristics.

For example, the early Southern experience of foreign direct investment (FDI) in the 1960s and 1970s was a classic example of the role played by the so-called Product Life Cycle (PLC) framework, although there does not appear to have been any explicit reference to the pioneering work of Vernon in this area (Bradley, 2001). In addition, the industrial strategy planners in the Southern development agencies (such as the IDA) did not wake up in the year 1990 - when Michael Porter published his seminal Competitive Advantage of Nations - and simply design and implement a policy based on Porter’s diamond of competitive advantage (see below). Rather, they came to realize that their own policy experimentation of the previous three decades could be interpreted and codified as a practical realization of many of Porter’s recommendations, and that Porter’s analytical framework pointed to possible consequences of current policy trends for the future. Needless to say, this was comforting, since it generated confidence in the strategies and facilitated learning from the shared experiences of other documented cases. The more recent framework of Best (2001) addresses many of the preoccupations of Irish policy-makers today as they come to realise the limitations of Porter’s policy framework in two economies that are dominated by foreign direct investment and are lacking in any deep-rooted culture of either product or process innovation.

A macroeconomic perspective to policy formation has been an integral feature of policy making in the South since the early 1960s, with the adoption of French-style ‘indicative’ planning after the publication of the seminal Economic Development in 1958. Only in more recent years has the macroeconomic approach been extended to regional development planning, with the publication of a National Spatial Strategy in 2002, and the sub-division of the economy of the South into a developed South-East (SE) part and a less developed Border-Midland-West (BMW) part for the purposes of continued access to EU Structural Funds.

After a decade of growth in the South driven to a large extent by manufacturing, followed by a decade of unsustainable growth driven by construction and speculation, a high degree of uncertainty now colours Southern national and internal regional strategic development thinking. In the case of the North, the post-Belfast Agreement decade has demonstrated an inability to design and implement any development strategy that breaks with the previous grant/subsidy culture of the decades of civil unrest in order to reverse the overriding and worrying dominance of the public sector in the economy (see Bradley and Hamilton, 1999a and b). The present national and regional uncertainty, combined with the serious fiscal crisis in the UK and the Republic of Ireland, has even more serious implications at the more vulnerable regional levels in the island economy. Although the regions have developed some quite distinctive characteristics over past decades, this has been more a spillover consequence of national, or top-down, policy making and not the result of policy innovation at the regional level.

In this chapter we describe some key frameworks that help us understand how development policy operates at the level of the Irish regions, and specifically within the border region. The first is a macro-regional framework which is a common feature of regional development planning in other EU states, but has been under-utilized in the island of Ireland. The second, Vernon’s product life-cycle (PLC) framework of FDI-led industrialization, emerges out of macro-regional thinking and is particularly important in the case of the island of Ireland and
its regions. Its insights remain very relevant for small open developing countries and regions even forty years after it was formalised by Vernon in 1966. The third, Porter’s diamond framework of national competitive advantage, is then discussed briefly, with an emphasis on the dynamic stages of development aspects that are sometimes overlooked in Porter’s work. The fourth framework, designed by Michael Best, is positioned to build on and extend Porter’s seminal framework and is particularly useful when one examines business strategy at the level of individual small firms and clusters of firms. The final framework, due to Jane Jacobs, moves beyond a focus on economics and business, is ambitious and wide reaching, and explores the crucial relationship between city economies and their hinterland regional economies (Jacobs, 1986). It stands above the previous frameworks, which are more narrowly focused on manufacturing activities and the characteristics of the firms that make up the manufacturing sectors in regions.

The focus on these five policy and interpretative frameworks may appear restrictive, since there are many other ways of systematizing policy-related development and business research. What we hope to demonstrate, using the examination of the Irish border region, is that all five frameworks have many crucial interconnections that are often ignored or glossed over in studies of regional development. Exploring these interconnections in the context of our examination of the productive structure of the Irish border economy yields insights into the likely future of the regional economy.

5.2 Macro-regional policy frameworks

There have been two broad approaches to macro-regional analysis. The first can be described as a ‘descriptive’ approach, which is based on the narrative history of regions, their geographical features, the quality of their physical infrastructure, the characteristics and standards of their human resources (or ‘human capital’), the nature of their main economic activities, their socio-demographic features and often includes identification of regional ‘aspirations’. The second can be described as an ‘analytical’ approach, is usually based on an explicit economic framework, and makes use of systematic data to examine the underlying economic mechanisms of the regions. To the extent that this approach is implemented using mathematical or computer-based techniques, it is usually referred to as regional ‘modelling’.

What are regional economies? We pose this seemingly simple question for a particular reason, since it serves to focus attention on the manner in which we should study and model regional economies. One possible way of looking at regional economies is to regard them as scaled down versions of the encompassing national economy, which have at least some local policy autonomy.70 If this were the case, then similar tools could be used to analyse regions as are commonly used to analyse national economies. At the other extreme, one might regard regional economies as isolated production units (or export bases) with little or no internal structure or policy autonomy. If that were the case, then the internal economics of the regions would not be of much interest. National business and policy decisions and performance would dominate, and be transmitted directly into the regions. This dichotomy was stated in clear terms by Paul Krugman, when he reflected on the nature of the economy of the Republic of Ireland (one of the smallest and most open EU economies):

> It would be going too far to think of Ireland as if it were purely a regional economy, its growth driven by its export base. The kinds of macroeconomic issues that matter for bigger national economies also matter for Ireland. But by moving back and forth between thinking of Ireland as a productivity-driven national economy and as an export-driven regional economy we may be able to get a fuller picture. (Krugman, 1997)

One might assume that one can analyse a region as a scaled down version of the national economy. In that situation, the organisation of productive and social activities in the region becomes an important development tool. Specifically, the ‘region’, since it is assumed to have some policy autonomy, can

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70 Regional policy autonomy normally does not extend to extensive fiscal autonomy (even in a federal state), and excludes – of course – monetary autonomy. But regions can have ‘soft’ policy autonomy, in terms of internal development strategies and influence over the behaviour and participation of the so-called social partners.
consider the design and implementation of its own industrial development strategy, just as the South did starting in the 1960s. The basic competitiveness of the region is partially subject to internal influence. Regional welfare measures become internal policy goals that can be influenced by regional policy instruments. In particular, the region may aim to escape dependency on outside aid, and try to generate a regional trade surplus, some of the benefits from which will stimulate the region further.

However, if we regard the region as an isolated unit of production, with very little policy autonomy, then structural development policy reverts to being the concern of the national authorities. The convergence prospects of a lagging region are limited, and depend almost completely on how national policy towards the regions is designed and executed. A lagging region risks being trapped semi-permanently in dependency, a situation that is often referred to as the ‘Mezzogiorno problem’, after the region of Southern Italy whose name has become synonymous with persistent under-development and dependency.

A useful approach to developing a macro modelling framework for the Irish regions, North and South, starts off with the premise that regions have different initial internal structures and the potential for some policy autonomy, even if that potential is not always realised. In other words, it creates at the regional level a similar economic and sectoral structure as is used in the national model, and identifies expenditure and tax policy. Although these policy instruments are identified at the regional level (e.g., a ‘regional’ rate of income tax, ‘regional’ public investment, or a ‘regional’ rate of social welfare transfers), they cannot be used independently by the regional authorities. But at what might be termed the policy ‘margin’, there are other areas where there is a greater degree of policy freedom, often with respect to funding directed specifically at the region to address specific regional problems. An example would be the task of designing an EU-funded Regional Operational Programme (ROP) which requires allocating the development aid between the various permitted investment categories and using whatever limited local policy freedom there is to enhance the economic ‘attractiveness’ of the region.

The accounting framework that underlies any regional model framework is illustrated in Figure 5.1. This framework attempts to replicate for each region a structure similar to that of the UK and Republic of Ireland national accounts. The most important element is that we must measure regional gross domestic product (GDP) in three different ways: by output (what is produced in the region); by expenditure (what is spent in the region); and by income (what is earned in the region). We then take these three measures of GDP and disaggregate them further. Output (or more accurately, GDP on an output basis) can be disaggregated into various relevant sectors such as manufacturing, market services, agriculture and non-market (or government) services. GDP on an expenditure basis can also be disaggregated into categories such as household consumption, public consumption, investment, and the regional trade balance (regional exports minus regional imports). Exports and imports could theoretically be separately distinguished, but are seldom if ever available at a regional level, and are only measured by the Central Statistics Office (in the Republic) at the national level. In terms of a region, the regional trade deficit measures both the trade balance with the rest of the encompassing national economy and with the rest of the world. Finally, we need to measure regional income (or GDP on an income basis). This is usually derived by subtracting regional wage income from regional GDP on an output basis, and defining the difference as profit.

**Figure 5.1: The regional accounting framework**

How good are the Southern and Northern regional accounting data? A complete technical answer to this question would merit a detailed paper to itself. But the brief answer is that the Southern regional data are still in a relatively underdeveloped state, but much progress has been made over the past decade. The output side of the regional accounts...
is reasonably well presented, but data on the expenditure and income sides are not as readily available, but can be ‘constructed’ from existing published data. However, appropriate Northern regional data hardly exist in any form, a situation that has serious implications for conducting research. We return to this issue in Chapter 8.

The fact that regional data will be only partially ‘official’, and are likely to contain many variables that are estimated on the basis of proxy data and indicators, means that one cannot usually be as confident in their accuracy as one might if the entire database were derived on the basis of official Central Statistics Office (for the South) and Office of National Statistics (for the UK) data sources and methodology. The pragmatic question is whether the data are robust enough to use for regional analysis, and to form the basis of regional macro-policy models. However, an equally relevant question is whether it would be possible to carry out regional analysis in the absence of regional accounts, however tentative the data may be.

In view of the constrained data situation, any island of Ireland regional modelling framework would emphasise only a few important features of the economy. It would select a small number of production sectors (manufacturing, market services, agriculture, general government), which is the very minimum that is required to understand how the structure of the regional economies are evolving and changing over time. It would attempt to isolate the links from the region to its ‘outside’ world, which consists of the rest of the Irish and UK national economies and the rest of the world. It would pay attention to the main drivers of structural change (e.g. inward investment and productivity growth). And it would isolate the main demand and supply features of regional economies where the former (demand elements) are important in the short run (e.g. when Structural Funds or major investments are being implemented), while the latter (supply elements) become important for the determinants of longer-term growth (after the Structural Funds end).

How do regional policy models differ from national models? The first simplifying assumption usually made in regional modelling is that the smaller regional economies are ‘post-recursive’ to the rest of the ‘national’ economy. In other words, no one of the regions is so large or important that its behaviour will have significant impacts on the rest of the national economy. Economic causality operates in the other direction, i.e. from the national economy down to the level of the regional economy.71

Next, it is a feature of regional data in most countries that regional prices are not published separately. Only national price data tend to be available. This does not necessarily mean that all regional prices are identical to national average prices. Indeed, it is a familiar phenomenon that many prices in underdeveloped regions are often lower than in central, metropolitan regions. But in the absence of data, there is little that one can say about regional pricing mechanisms, so one has to ignore the issue. A related point is that regional wage rates tend to be heavily influenced by national wage norms, but that they can sometimes differ from these norms to a significant extent. In designing regional models one must take account of this phenomenon, usually by including a mechanism that links regional wage determination with national wage rates. So regional wage rates can differ, but the consequences affect profitability rather than prices, since the region is assumed to be a price taker.

Another way in which regional economies tend to differ from national economies is that their labour markets are usually much more open to migration flows. Labour tends to flow from regions that have high unemployment and/or low wage rates to regions that have lower rates of unemployment and/or higher wage rates (Harris and Todaro, 1970). This process can also take place even if rates of unemployment are similar across regions, since some regions generate more jobs than others, and these job opportunities can be exploited by well qualified inward migrants as well as by local residents. The other possibility is that unemployment in some regions may be ‘hidden’ or partially suppressed. Consequently, it is important that the ILO/LFS methodology is used, and not the less

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71 The assumption of regional post-recursivity has to be used with care. For example, the economy of Dublin is hardly post-recursive to the rest of the South. However, such an assumption would be more reasonable in respect to, say, the economy of Leitrim or Donegal.
accurate census-based approach to recording labour market status.\(^2\)

Finally, we reiterate the point that the inclusion of policy instruments in regional models, such as tax rates, public sector employment, public investment, etc., does not imply that these instruments could be used by regional policy-makers. Within the sub-regions of Ireland, North and South, the policy autonomy of local administrations is heavily constrained. Even in federal states like Germany, regions have only limited policy autonomy.

With respect to their internal structure, there are usually only a small number of relationships in regional models that dominate their response to policy and other shocks. The most important set consists of the equations that determine sectoral output. In the case of manufacturing, the two driving forces are local (regional) demand and external demand (from the rest of the national economy and from the rest of the world). In addition, local competitiveness matters, and this can be measured by real regional unit labour costs relative to the national average. In the case of market services, the main driving force is local (regional) demand, since this sector produces mainly for the local market.\(^3\)

The determination of agricultural output, which is internationally traded, is often simplified and driven by trend productivity relationships. In other words, farmers produce what they can, and the issue is how productive are they. Finally, output in the general government sector is driven by employment inputs, which are policy determined at the local and national government levels.

The regional labour supply is linked to the regional working age population and migration through a ‘participation’ rate. The regional rate of participation (defined as the fraction of the working age population that is either at work, or actively seeking work) tends to be fairly stable over time, but can be influenced by the rate of unemployment (the so-called ‘discouraged worker effect’).

Since no regional data on exports and imports are available, we cannot include such equations in regional models. Instead, we determine the net trade balance (NTS, or regional exports minus regional imports) residually as follows:

\[
NTS = GDPM - (CONS+I+G)
\]

where GDPM is total GDP at market prices (determined on the production side of the model), CONS is household consumption, I is total investment and G is consumption by general government. The sum of CONS, I and G is usually referred to as regional ‘absorption’.

Finally, one will usually want to include a degree of detail into the regional general government (or non-market) sector. Tax revenues are considered under a wide variety of types (income tax, expenditure taxes, corporation taxes, etc.), and are determined by linking revenue to an appropriate tax rate and a tax base. Public expenditure is made up mainly of policy instruments, such as public sector numbers employed, transfer income paid to households, public investment, etc. Once again, we stress that the inclusion of a policy instrument in the regional model does not imply that the instrument is always, or ever, under the control of the regional authorities. For example, rates of social insurance contribution are set nationally, and imposed on regional authorities.

### 5.3 Vernon’s product life cycle framework

A powerful concept in business analysis is the product life cycle which captures the notion that new products are designed, come into existence, change in character as they mature, and eventually either become altered out of all recognition or vanish into obsolescence. Not all products follow a rigid path of birth, growth, maturity and decline. Nevertheless, the product life cycle (PLC) – in spite of all its vagaries and imperfections – has served as an anchor for much subsequent work on industrial policy making.

The seminal paper on the role of the PLC in explaining international investment and trade is Vernon (1966). Vernon wrote his paper at a very interesting time in the post-war era, when American

\(^2\) For example, the census-based measure of regional employment tends to overstate the agricultural workforce. In the case of Poland, this distorts comparisons between eastern Polish regions, which have big agricultural sectors, and western regions, which have small sectors.

\(^3\) In recent years we have seen the rise of internationally traded services, such as call-centres, software development and banking. However, service sectors in small, peripheral Irish regions tend not to have these activities.
investment into Europe was so dynamic and threatening that it presented the major European economies with what Jean-Jacques Servan-Schreiber characterized as *The American Challenge*. In his book, Servan-Schreiber wrote:

> While French, German, or Italian firms are still groping around in the new open spaces provided by the Treaty of Rome, afraid to emerge from the dilapidated shelter of their old habits, American industry has gauged the terrain and is now rolling from Naples to Amsterdam with the ease and speed of Israeli tanks in the Sinai desert. (Servan-Schreiber, 1968)

The best explanation for the rise of American inward investment into Europe, and eventually into Ireland and the Irish regions, was provided in Vernon (1966). Vernon’s main insight was to link the product life cycle with international trade and foreign direct investment. At a time when US foreign direct investment had come to dominate the post-war European economy, standard trade theory offered little by way of explanation. Vernon realized that the US home market played a dual role: it was the source of stimulus for the innovating firm as well as the preferred location for the actual development of the innovation. At the early stage of the product life cycle, producers need great freedom and flexibility to modify, improve and test new processes at a time when the preferred production technology has not yet stabilized. Also, demand for innovative products tends to be relatively insensitive to price, so there is less pressure to seek lowest cost production locations. Finally, communications between producers, suppliers and final customers must be facilitated, and this argues for a home location.

As the product matures, a certain degree of standardization takes place, and this has locational implications. The need for production flexibility declines and there is now a greater concern for lower costs. Also demand from abroad increases. However, as long as the marginal production cost plus the transport costs of shipping from the US to the foreign market is lower than the average cost of prospective production in the market of import, there will be no pressure to invest in foreign production capacity. Markets will be served by exports from the US. But as economic and political pressures build up, eventually some production moves abroad, initially into the larger more developed economies like the UK, France and Germany, but soon even to smaller and less developed economies like Ireland and Northern Ireland. Eventually, as the product fully matures and perhaps enters a declining phase, low cost considerations become paramount, production ceases in the US, declines in other developed economies, and concentrates in low cost developing economies.

Today, of course, the world economy is not dominated to the same extent by the US as it was in the 1950s and 1960s. However, the Southern (Irish) economy is still dominated by US branch plants, and these are also important in the North, albeit not to the same extent. While products can still be developed initially in home markets (e.g., consumer electronics in Japan), it is more common now for product development and launches to aim at global market coverage from the start, and for elements of the value chain also to be produced abroad from the start. Nevertheless, the product life cycle still provides very useful insights into the reasons why certain types of foreign direct investment locate in the island of Ireland.

Writing in 1979, Vernon provided a reassessment of the role of the PLC in explaining trade and FDI. He drew attention to the fact that advances in technology had led to product life cycles that are much shorter than in the earlier era. In addition, the activity of multi-national enterprises (MNEs) is no longer dominated to the same extent by US corporations as it was in the two decades after the Second World War. Hence, in terms of demand (the initial market stimulus) and supply (the initial skills needed to design and produce sophisticated products), influences are spread over many more markets. Vernon refers to these factors as ‘environmental changes’ (the decline in the role of the US home market due to convergence of income levels throughout the developed world) and ‘network spread’ (much earlier transfer of technology between a global network of self-standing MNE subsidiaries).

Vernon suggests that multi-national enterprises need to be classified into at least two different ideal types. First, ‘global scanners’ innovate and transfer technology instantaneously and costlessly between any parts of the globe, and there is little or no explanatory role for a product cycle hypothesis. But, of course, the acquisition and dissemination of technology is not costless. Second, ‘global
standardisers’ consist of firms that develop and produce a line of standardized products which respond to a homogeneous world demand rather than to the distinctive needs of individual markets. This obviously includes such commodities as oil, chemicals and crude metals, but has also come to include transport equipment, computers and pharmaceuticals. Such firms can save on the costs of segmented market research, and benefit from economies of scale in global production. With respect to the role of the product cycle, Vernon points out that two opposing forces operate for firms who are ‘global standardisers’:

Firms in this category, innovating for a global market, are obliged to play their innovation gambles for relatively heavy stakes. Accordingly, they can be expected to maintain the central core of their innovational activities close to headquarters, where complex face-to-face consultation among key personnel will be possible; in this respect, such firms are likely to perform consistently with the product cycle pattern (p.262):

He goes on:

Seeking to exploit scale economies, they are likely to establish various component plants in both advanced industrialized countries and developing countries, and to cross-haul between plants for the assembly of final products. That pattern will be at variance with product cycle expectations (p. 263).

The type of FDI that has located in Ireland, North and South, consists predominantly of ‘global standardisers’ in the fields of computers, related software, pharmaceuticals and chemicals [Microsoft, Dell, Hewlett Packard, Dupont, etc]. Success in attracting these firms to the South came primarily from the fact that they were initially targeted by the Industrial Development Agency (IDA) at a very early stage in their (technological) life cycle. For example, the IDA was among the first such national agencies to lobby the Apple computer company to produce outside their US home base, and to come to Ireland as early as 1979 [MacSharry and White, 2000, pp.202-203]. The subsequent systematic targeting of the makers of each individual component of computers – keyboards, hard disks, cables, mice, printers – as well as software, meant that the rapid growth of the modern manufacturing sector was heavily concentrated on a narrow range of technologies. In this sense, the process represented a classic example of the PLC model of FDI. A similar, thought weaker, process occurred in Northern Ireland, driven by grants and subsidies.

5.4 Porter’s diamond of competitiveness framework

Vernon had set out to explain why the US was a leader in so many advanced goods. His PLC framework provided a dynamic theory of trade and outward FDI in a context where the US dominated the design of advanced products. His simple framework still tells us much about the process of modernisation of manufacturing on the island of Ireland, even in the post-Belfast Agreement era.

Michael Porter set out to answer a series of wider questions:

Why (do) firms from a particular nation establish leadership in particular new industries? What happens when demand originates simultaneously in different nations … ? Why is innovation continuous in many national industries and not a once-and-for-all event followed by inevitable standardization of technology as the product cycle theory implies? … How can we explain why some nations’ firms are able to sustain advantage in an industry and others are not? (Porter, 1990, p.17)

The analytical work of Porter on competitive advantage has been highly influential in the recent reformulations of Southern and Northern industrial strategies (Porter, 1990; Culliton, 1992; NIGC, 1995). Porter asks how a nation can achieve international success in any particular industry or in groups of industries. His answers identify four broad attributes (the so called competitiveness ‘diamond’) that shape the environment in which national firms compete (Figure 5.2):

Cross-Border Economic Renewal Rethinking Regional Policy in Ireland
Figure 5.2: Porter’s diamond of competitive advantage

(a) **Factor conditions:** the availability and quality of the factors of production such as skilled labour, infrastructure etc.

(b) **Demand conditions:** the nature of local and external demand for the industry’s product or service, where local demand can play a vital role in encouraging product innovation and improvement.

(c) **Related and supporting industries:** the presence or absence of supplier industries and related industries that are also internationally competitive.

(d) **Firm strategy, structure and rivalry:** the national conditions governing how companies are created, organized, and managed.

Although the diamond itself is not a dynamic system, Porter suggests that there are different stages of competitive development during which different elements of the diamond come into play (Figure 5.3). At the early stages of development, in states and regions that have poor infrastructure and little by way of human capital, competitive development is driven by factor conditions and draws on low cost labour and/or abundant natural resources. The next stage is investment driven, and draws from factor conditions (e.g., human capital and skills, infrastructure, etc.), demand conditions, as well as firm strategy, structure and rivalry (i.e., from three of the four diamond elements). In the next stage, competitiveness is innovation driven, and draws from the entire diamond.

Figure 5.3: Porter’s stages of competitive development

Porter’s main contribution to explaining the nature of competitive advantage lies in the emphasis he places on the interactions between these four attributes and the detailed study of individual successful nations, regions and industries that illustrate these interactions at work. In particular, his approach has strong implications for the design and execution of national industrial policy (Porter, 1990, chapter 12), and provides a useful checklist of what types of policy intervention are likely to improve the individual elements of the diamond as well as their interaction. This approach was used to great advantage by the Industrial Policy Review Group in the South (Culliton, 1992), and in the North by the Northern Ireland Growth Challenge (NIGC, 1995).

Despite the prominence given to Porter’s work, it can be argued that his analysis, and more especially the policy implications that flow from it, have yet to be fully and systematically applied to the Irish economies, North or South. This, of course, may be because of the difficulties of translating a conceptual analytical framework into a practical and workable set of policy interventions. Moreover, it can also be argued that Porter’s analysis itself has some flaws when applied to small open regions and economies and has subsequently lost some of its worldwide appeal and popularity just at the time when it has become so influential in Ireland (NESC, 1998).

Of particular interest in the context of small economies such as Ireland is the fact that Porter assigns particular significance to indigenous firms and local markets. More ominously, he asserts that:
A development strategy based solely on foreign multinationals may doom a nation to remaining a factor-driven economy (Porter, 1990, p.679).

Debate on the wisdom and sustainability of the Irish strategy has raged over this important issue. In its crudest interpretation, Porter is simply re-stating the implication of Vernon’s early work on the PLC. In other words, there is the risk that Ireland would always remain an underdeveloped country that competes on low costs in producing mature products. But we have seen that Vernon has modified his framework considerably, and takes account of the fact that the world — viewed narrowly as a productive system — is no longer divided rigidly into North and South. In fact, the availability of high technology has assisted in the wider upgrading of manufacturing.

An extensive literature has grown up around the debate on the role Porter assigns to the home market and domestic firms (the home-country diamond), and has led to modifications and extensions (Rugman (ed.), 1993; Porter, 1998). One modification concerns the way in which smaller nations interact with the larger global markets. It is suggested by Rugman and D’Cruz (1993) that policy strategists in a small open economy will seek to promote national competitive advantage not only by working with the local diamond, or even regional ‘sub-diamonds’, but also by considering the local diamond and its interactions with the diamonds of the nations from which it receives inward FDI and with whom it trades. This has come to be called the ‘double diamond’.

In a closely related issue, Porter’s views on the role of inward FDI in small nations have also been criticized. In his empirical work, Porter only regards outward investment as a manifestation of competitive strength. Inward investment is regarded as a manifestation of domestic weakness.

Except when it is largely passive, widespread foreign investment usually indicates that the process of competitive upgrading in an economy is not entirely healthy because domestic firms in many industries lack the capabilities to defend their market positions against foreign firms. … Inbound foreign investment is never the solution to a nation’s competitive problems. (Porter, 1990, p. 671)

This approach is challenged by Rugman and Verbeke (1993) on two main grounds. First, the domestic diamond framework is simply inappropriate for small open economies (like, say, Canada and Ireland). Second, Porter ignores the evolution of multi-national enterprises from their earlier centralized, hierarchical structure to a more organic web of parent–subsidiary relationships, where initiatives can come from the company’s periphery as well as from its core.

5.5 Best’s Capability Triad

Another framework to emerge from a business research perspective is the ‘Capability Triad’ of Michael Best. This was the subject of an NIEC research monograph in Northern Ireland (Best, 2000) and was published in book form in 2001. It represents a development of Best’s earlier work on the ‘new competition’ (Best, 1990). The capability triad contains probably the most synergistic combination of insights drawn from the economic theory of the firm and the detailed history of the structural evolution of business practices. The grounds for this synthesis were laid in Best’s earlier book on The New Competition, which was directed more at the limitations of the conventional neoclassical theory of the firm than at the dominant business taxonomies and frameworks (Best, 1990). The title of the 2001 book, The New Competitive Advantage, indicates that it is Porter’s framework that needs renewal and extension.

What Best (2001) offers in his Capability Triad is a new and sophisticated strategic framework for the development of industrial policy, particularly as it applies to regions. The Capability Triad contains a synergistic combination of insights drawn from the economic theory of the firm and the historical evolution of business structures and practices, based on the interaction of three distinct but interrelated elements: a business model, production capabilities and skill formation (Figure 5.4). The business model element of the triad describes how entrepreneurial firms can grow, based on the creation of new firms through technology diversification, inter-firm networks within open systems, and regional specialization based on technological capabilities. The production capabilities element of the triad integrates ideas from operations management and strategy into a logical system of production models that drives home the lesson that competitive strategy and productive systems are bound together. The skill
formation element of the triad provides a vital input to innovation and serves to facilitate the synergistic interaction and reinforcement of all three elements. Finally, an important implication to emerge from Best’s analysis is that any overall programmes in the area of industrial strategy require the close integration over time and space of the change programmes that need to take place within each of the elements of the triad.

**Figure 5.4: Best’s Capability Triad**

The most crucial policy implication to emerge from Best’s framework is that any overall programmes of change in the area of industrial policy require the close integration of the change programmes in each of the elements of the triad:

*Rapid growth involves coordinated organizational changes in each of three domains: the business model, production capabilities, and skill formation. … The three domains are not separable and additive components of growth, but mutually interdependent sub-systems of a single developmental process. … No one of the three elements of the Capability Triad can contribute to growth independently of mutual adjustment processes involving all three elements (Best, 2000, p.2).*

In a sense, this is a model that requires a type of ‘critical mass’ of change in each element of the triad before growth can take off. Porter, on the other hand, suggested that the elements of his diamond could be picked off one by one, leading to a sequential process of growth, as illustrated in Figure 3.3 earlier. Although Best’s framework requires a degree of sophistication and co-ordination for producers, workers and policy makers that is more demanding than Porter’s framework, it appears to be more soundly based on a close integration of insights from economics and business.

A daunting aspect of the Capability Triad is that it treats the scope for public policy as being almost completely and seamlessly blended into the detailed mechanics of change processes that occur within private firms. In this framework, as well as in Porter’s diamond, public policy and private entrepreneurial actions do not operate in isolation from each other, but become mutually reinforcing. Only in one element of the Capability Triad – skill formation – is there some scope for a separable and transparent role for public policy: namely, to ensure that the right mix of education and skills is produced to accommodate the changing demands of the economy as it develops. Even here, the links between public and private activity are crucial. For example, an ESRI study (Denny et al, 2000) showed that for different types of training intervention, those closely linked to the market were most effective in combating unemployment, while, in contrast, training of a more general nature did not, on its own, appear to have an enduring beneficial effect.

An obvious question to ask of the Capability Triad is the extent to which it explains why there has been phenomenal growth in some regions (Silicon Valley, Route 128, Emilia–Romagna, etc.), but less in others, such as the Italian Mezzogiorno. On the one hand, how much is due to domestic policy initiatives, where there may be some degrees of freedom and scope for action? On the other hand, how much is due to autonomous localised systems that operate within the private sector (operations systems, entrepreneurial skills, social capital), which are less amenable to direct policy influence, particularly in the short term? An initial fear might be that the Capability Triad acts as a closed system that can ‘explain’ success or failure, but – rather like meteorology and the weather– does not permit one to have much influence over the outcome.

Best’s earlier work contained in *The New Competition* (1990) dwell at length on the phenomenal success of the northern Italian regions – centred on Emilia–Romagna – in contrast to the very poor performance of the southern region of the Mezzogiorno. What he illustrated is that it is almost impossible to explain away inter-regional differences in economic performance simply in
terms of differences in fiscal, monetary, or other conventional state-wide policies. History plays a role, as does geography, and conventional policy can act as a compensating mechanism. But it requires a framework like the Capability Triad to get to root causes of regional success and to suggest systematic remedies for failure. Best’s analysis suggests that regional development is most successful where two conditions hold:

i. A sufficient degree of policy autonomy is available that permits freedom of action to address local problems, and this policy autonomy is actually used;

ii. Economic and business policies are designed and implemented in tandem: the first to design an attractive environment in which business can flourish; the second to recognize and exploit profitable opportunities where they exist, and to feed back information to policy-makers where problems and obstacles are identified.

This process is difficult to operationalise if there is an inadequate stock of research-based knowledge or a failure to draw comprehensively from the available pool of research. Sovereign states, guided by good research, can use economic policies to influence the environment within which businesses can function efficiently, even though their freedom of action has diminished as fiscal and monetary power is ceded to supranational organizations like the European Union. Regions like the North have even less policy autonomy and must take almost all key aspects of the economic policy environment as set externally by the state (the UK) of which they are part. But regions are not completely powerless when it comes to policy making, and can sometimes use industrial policies to distort conditions in their favour relative to the other regions of their nation state. Nevertheless, policy makers in regions would be well advised to attempt to understand how national economic policies affect them differentially. In the past, the tendency in the North has been to call for some form of ‘compensation’ to offset actual or perceived disadvantages within the UK. Unfortunately, such ‘compensation’ often comes in the form of financial transfers from the core regions to the periphery regions that can blunt regional competitiveness, prevent change and engender dependency.

The central idea of Best’s framework is that industrial strategy should be guided by the Capability Triad. To this end, he sets out ten proposals for how such a strategy might be taken forward, and we illustrate these in Figure 4.5. For the purposes of exposition, in Figure 4.5 three of the proposals are portrayed as being directed mainly at improving the business model aspect of the triad; three more are directed at the capability development element; and two are directed at the skill formation element. Of the remaining two proposals, one concerns a general need to link improvements in all elements of the triad; and the other concerns a very specific need for synergies between technology management and skill formation.

Best’s proposals do not resemble the usual detailed shopping list of very specific policy recommendations that tend to dominate orthodox policy documents. For example, how helpful is it to be exhorted to ‘concentrate on entrepreneurial firms’? In isolation, such a recommendation is only a worthy aspiration. But in the context of the matrix of proposals focused on the three interacting elements of the Capability Triad, this recommendation opens the floodgates for detailed policy work on how it can and should be implemented in practice.

How many of the existing firms in Ireland or Northern Ireland are entrepreneurial, or could become so in the future? Should an industrial development agency attempt to pick entrepreneurial winners? Conventional economic advice exhorts leaving this task to market forces. But Best’s review of policy design and implementation in the Massachusetts Route 128 area, and in Malaysia, as well as his comments on policy in the South of Ireland, provide convincing evidence that there is indeed a crucial strategic organizing role for government in order to ensure that conditions favour the growth of a population of entrepreneurial firms. At the very least, such a role should be used by governments to avoid implementing policies that work against the rise of entrepreneurial firms, such as maintaining a system of grants that bails out failing firms or attracts firms

74 Inappropriate and disruptive fiscal and monetary policies can, of course, destroy a stable and productive economy. So they are a necessary condition for productive success, but not a sufficient condition.
into sectors where the preconditions for open networking do not exist. At best, it should encourage policy-makers to send clear signals about the characteristics that they wish to foster in a future desirable industrial structure.

Turning to the second recommendation in Figure 5.5, how should public policy be designed to ‘diffuse high performance work organization’? Here the role of government is almost always going to be dominated by the role of the market. As firms move up the production capabilities spectrum, they tend to be rewarded by higher profits and increased market share. But this proposal can be made into one element of a public policy filter in order to judge the advisability of targeting a firm or a class of firms for policy attention. Also, a policy of ‘fostering open networks’ (as in the third recommendation in Figure 5.5) will address the barriers that the North’s mainly small firm (SME) economy faces in moving up the production capabilities spectrum towards best industrial operations practice. Here, for example, the work of InterTradeIreland and of the Joint Business Council of the CBI in Northern Ireland and IBEC in the South in fostering cross-border inter-firm networking urgently needs to become a core element of SME strategy if Northern firms are to become competitive in a global market-place.

5.6 Jane Jacobs on cities and their regional economies

The first four policy analysis frameworks were analytical to varying degrees. The most analytical – the macro-regional framework – is normally incorporated into formal computer models that can be used to carry out national and regional forecasting and policy impact analysis. The Vernon PLC framework is narrowly focused on the nature of inward direct investment and draws its origins from formal trade theory. The Porter and Best frameworks are more like systematic taxonomies that provide ways of organising facts into sequences that are easier to link together in a policy-useful way.

75 The short review of the work of Jane Jacobs draws on the paper ‘Jane Jacobs Among the Economists’ by David Nowlan (Nowlan, 1997).
The final framework, the work of Jane Jacobs, is very different and was published in the form of two books that commanded a much wider readership than is common for books on economic topics. The first, *The Economy of Cities*, was published in 1970. The second, *Cities and the Wealth of Nations*, was published in 1986. But it was not until her work was referred to by Robert Lucas in his seminal 1988 paper ‘On the Mechanics of Economic Development’ that it became more widely read within the economics profession. Lucas addressed the failings of the then dominant neoclassical model of growth that asserted that rates of economic growth and per capita levels of economic output will converge among nations and regions, so that poor nations and regions should automatically grow faster than rich countries and regions, and growth at high levels cannot be sustained. The problem was that the real world refused to behave like this. Poor states and regions often remained poor.

Lucas introduced the notion of human capital, which had two special features. First, that human capital can be accumulated without limit and does not suffer from diminishing returns. Second, that higher levels of human capital in an economy raise the level of productivity of everybody in that economy, and not just the productivity of those whose human capital is higher. The first feature allows economies to grow without slowing as they become richer. The second feature introduces the concept of an ‘externality’ into the growth model, i.e., a widespread spillover benefit that is not transmitted through or reflected in market prices.

In her two books, Jacobs’s principal theme is the part played by cities and large towns in economic achievement. She sees the large population agglomerations of cities and large towns as the engines of economic advance, providing markets, jobs, capital, and technology for themselves, the regions around them, and other cities as well. Cities do this, she believes, only when business people in them engage in what she calls ‘import–substitution’, that is, “replacing goods that they once imported with goods that they make themselves.” Because, she argues, “an import–replacing city does not, upon replacing former imports, import less than it otherwise would, but shifts to other purchases in lieu of what it no longer needs from outside,” the import–replacing activity of the city is “at the root of all economic expansion.” According to Jacobs, when a city develops, it creates five forms of growth which transform its immediate region or hinterland:

a) Abruptly enlarged city markets for new and different imports consisting largely of rural goods and of innovations being produced in other cities;

b) Abruptly increased numbers and kinds of jobs in the import–replacing city;

c) Increased transplants of city work into non-urban locations as older enterprises are crowded out;

d) New uses for technology, particularly to increase rural production and productivity; and

e) Growth of city-generated capital.

However, when the economic forces created by a city’s growth spread beyond a city’s region, they are usually not in reasonable balance with one another: “The various strands—markets, jobs, technology, transplants and capital—separate from the mesh and take off by themselves” and create “stunted and bizarre economies in distant regions.” An example is what she refers to as a ‘supply region’, i.e., a region that supplies distant markets but lacks an import–replacing city of its own.

The approach of Jane Jacobs does not provide a direct link to the formulation of policy. But it does serve to condition and influence the way that one should examine the economies of regions. She warns against the practice of economists of concentrating on nation-states, since it causes them misleadingly to group together rich regions and poor ones within the same nation. However, the officially published economic data tends to be most comprehensive for the nation state; less comprehensive for regions; and almost non-existent for cities. This has undoubtedly deflected attention away from what Jacobs correctly regards as the true engines of regional growth: namely, dynamic and vibrant cities.

5.7 Summary

It appears to be a fact of life that the rich tapestry of economic and business research is usually far too complicated to be applied directly to practical policy making other than in the form of simplifying explanatory frameworks. Such frameworks usually stop well short of being testable paradigms in
any scientific sense, but often take the form of taxonomies of useful and revealing facts and insights. We have examined five influential examples:

1. A formalised macro-regional policy framework to be used in association with national macro policy frameworks;

2. Vernon’s PLC framework to explain the sequential nature of the different stages of industrialization, trade and foreign direct investment;

3. Porter’s diamond of the competitive advantage, which provides a systematic check-list showing how policy can be used to create national advantage even in situations where initial factor and other endowments are unfavourable;

4. Best’s Capability Triad, which emphasizes the need for synchronized advances on many fronts if dynamic growth is to occur;

5. Jacobs’s study of the interactions between city economies and their regional hinterlands.

One must approach these frameworks with an understanding of their historical origins and their necessary simplifications. Unlike scientific theories, where a single wrong prediction can cause rejection and replacement by a new theory that encompasses old and new observations, these five frameworks simply look at regional economics and industrial development issues from different perspectives, and place emphasis on different factors. The macro-regional framework applies a variation of standard, national macroeconomic policy to regions, suitably adapted for the special features of regions. The PLC stresses the primacy of the country that provides the source of FDI, and the dependency of the host countries. This had more universal acceptance in the 1950s and 1960s than it does today, but it continues to apply to small open economies like Ireland, as well as the new EU member states of Central and Eastern Europe. The Porter diamond explains the development process in a world that consists of many relatively large and developed economies, and takes up where the PLC leaves off. But it continues to insist that development is crucially dependent on the domestic market, and cannot be based simply on supply chain linkages to the global economy. Best’s Capability Triad selects a very different set of factors that are the primary causes of development, focuses on how businesses actually operate and further insists that development requires simultaneous advances in all three. Finally, Jacobs stresses the symbiotic relationship between the dynamism of city economies and the challenges of ensuring that their regional hinterlands do not lose out.
Chapter 6: The Border: National and international context

6.1 Introduction

In order to start on the challenge to develop an understanding of the Irish cross-border economy there is a strong case for first examining the economies of the entire United Kingdom (UK) and of the Republic of Ireland (the South). The overriding reason is that important policy decisions in these two states are almost completely made at the highest national level: for fiscal policy (tax rates, expenditure envelopes, etc.), monetary policy (interest rates, bank regulation, etc.), social policy (welfare regulations, etc.), industrial strategy, competition and regulatory policy, and a broad range of other government decisions and activities. Of course the separate regional economies of the UK have some discretionary power, particularly after the creation of devolved administrations in Northern Ireland, Scotland and Wales. But such local power tends to be modest and many of the activities of UK regional administrations are either reserved to the UK government, or are heavily circumscribed by the national policy stance. Policy is often implemented at the regional level of government, and the local electorate may be given the impression that policy is driven by local actors, actions and initiatives. But the political reality is that since neither the UK nor the South are federal states (like Germany), policy-making power tends to be concentrated at the centre (in London and Dublin), and is only devolved to the periphery to a very limited extent. Indeed, for some policy issues in both the UK and the South, power now lies at an even higher level, with the European Commission and – in the case of members of the euro zone – with the European Central Bank (ECB) in Frankfurt.

A second reason for studying the UK and Republic of Ireland economies is that the resources available for implementation of regional policy tend to be determined at the national level. It is the UK and the Irish governments who are responsible for their respective revenue gathering activities, financing their public sector deficits, servicing their national debt, as well as overseeing the requirement to finance any current account deficits on the balance of payments. We do not talk of (say) the borrowing requirement of the counties of the South or the District Council areas of the North. Nor do we talk of the balance of payments problem of the North as a whole. Regional governments do not have to carry these responsibilities, although they do have to suffer the consequences that result from actions taken at the national level when, as at present, fiscal cut-backs have to be implemented at a national level. A third reason is that national policy actions can sometimes become regionally biased in order to address national priorities, in the sense of benefiting certain regions over others. An example is the manner in which UK national policy assigns great importance to the role of the financial services sector, based largely in London. The UK decision to stay outside the euro zone was heavily influenced by the perceived need to defend the role of the City of London against competition from other financial centres in the euro zone (HMT, 1997). Many of the UK regions – including Wales, Scotland and Northern Ireland – might have fared better within the euro zone. Nevertheless, it would be a serious mistake to study the UK only as a single aggregate economy and to compare it with the economy of the Republic of Ireland. The UK economy is simply too large and too complex for an isolated UK-Irish comparison to make much sense or to yield many insights. The reality is that the economy of the Republic of Ireland behaves very much like a region of the total economy of these two islands, alongside the eleven British regions and Northern Ireland. After winning its independence, the ‘regional’ economy of the South since 1922 enjoyed a considerably greater degree of policy autonomy than the present twelve standard regions of the UK, who must adopt to a large extent the centrally determined policy stance set by the UK government. The concept of the ‘island’ economy, first formulated by Sir George Quigley in 1992, served to kick-start joined-up thinking on an island that then consisted of two separate and distinct political jurisdictions, but where there was much sense in thinking about the possible benefits of more economic interaction, interchange and co-operation. At a higher level, the concept of the economy of

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76 Even in the case of Poland, which is not a federal state, devolution of power to regions seems to be greater than in the UK and Ireland. For example, about one third of all EU Structural Funds were allocated for the exclusive use of the NUTS-2 (or voivodship) administrations, including lower tier levels of NUTS-3 government.

77 See Bradley, ed. (1998) for an extended treatment of euro-related issues and the UK decision not to join the euro zone.
“these islands” can equally be used to assist strategic thinking about an economy of two separate political jurisdictions, but where the Republic of Ireland functions in some important ways as a kind of economic region alongside the 12 UK regions of these islands.78

How should we examine the economies of these islands? In this study we are more interested in what economists call the ‘supply’ side of the economy than in the ‘demand’ side. In other words, we recognise that the allocation of GDP on an expenditure basis between private and public consumption, investment, inventory changes, exports and imports is important for any understanding of the short-term performance of an economy. In the short term, the productive capacity of an economy can be assumed to be fixed (or at least, it changes rather slowly) and it is the rate of utilization of that capacity that is important. So when times are good, commentators tend to talk of a ‘consumer boom’. When times are bad, commentators tend to decry the lack of demand and favour demand-side stimulation, often via public expenditure. Government expenditure policy in the short term tends to focus on stabilization of the economy, where demand is brought into a better balance with supply. Government investment policy may affect the state of demand in the short term – while roads are being built and education and training policy is being implemented. But the more important impacts are in the longer term, when renewed infrastructure and increased levels of human capital increase the productive capacity of the economy.79

But a focus on the demand side tells us very little about the underlying structure of the economy that produces the goods and services in question. For example, in the ESRI Quarterly Economic Commentary, there is a full accounting of expenditure, but output is merely treated under two headings – agriculture and non-agriculture – where the latter lumps together manufacturing, market services, building and construction and public services. Our main interest is in the productive structure of the economy at national, regional and sub-regional levels. Consequently, we focus almost exclusively on the sectoral aspects of output and employment, the determinants of capacity, and how the nature of productive capacity tends to evolve over time. Manufacturing is of particular interest since this sector often acts as a national and regional ‘engine’ of growth, generating employment locally but selling a large fraction of the goods produced to external or global markets. Market and public services tend to generate the bulk of output in all modern economies, but their output tends to be consumed locally and generates little by way of external earnings and resources.80 Consequently, they are very sensitive to any contractions in local demand that emanate from outside the region (e.g., fiscal contractions, which would affect the provision of public services, or negative shocks to their local manufacturing base, which would affect demand for a wide range of professional and private services).

In Section 6.2 we first take an aggregate overview of the UK and Republic of Ireland economies, and place them in their wider EU context. Here, we take a long-term view, since this serves to emphasise the degree to which the Republic of Ireland underperformed until the late 1980s, and caught up with EU average GDP per head during the 1990s. We then examine in Section 6.3 the regional structure of the UK economy using two different types of sectoral disaggregation of GDP. The first looks at the broad sectors of the whole economy, and – for example – treats manufacturing as a single aggregate sector. Here we are interested in any big sectoral switches that have taken place over the past decade and which affect the present and the future. The second level of disaggregation focuses on manufacturing, breaks it out into a series of sub-sectors, and permits us to examine how the UK regional structure of manufacturing evolved in recent years, and how this compared with the Republic of Ireland. This has implications for regional export performance, which are also explored.

78 It is unfortunate that the description ‘British isles’ has lost favour and can no longer be used as a simple geographical term for the more politically correct (in nationalist eyes), but awkward, designation of ‘these islands’.
79 The distinction between short-term implementation impacts and longer-term capacity impacts is a distinction that arises when EU Structural Fund impacts have to be evaluated. The implementation impacts are transitory. But the capacity impacts are long enduring (see Bradley, 2006).
80 An example of a locally provided market service that can generate external resources would be tourism and – at least in London and Dublin – certain kinds of international financial services.
6.2 An overview of national economic performance

Table 6.1 presents a very basic set of macroeconomic indicators for the performance of the two national economies – the UK and the Republic of Ireland (Ireland, for the remainder of this Chapter) – for an extended period 1981-2010. Table 6.2 uses these data to derive some indicators of comparative performance. Some interesting trend behavioural change is apparent. For example, the relative population sizes were fairly stable, but the UK decreased its population relative to that of Ireland from a factor of 16.4 times larger in 1981 to 13.9 times larger in 2010. In other words, while both populations grew steadily, that of Ireland grew faster. This is not surprising since it is well known that Irish demographics are exceptional even in a global context as the only state whose population today is still much smaller that its population in the mid-19th century, before the Great Famine of 1847-49.

Table 6.1: The UK and South: Key economic performance indicators – 1981-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (thousands)</th>
<th>GDP (€)</th>
<th>GDP/cap</th>
<th>GDP growth</th>
<th>UR (LFS)</th>
</tr>
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<td>UK</td>
<td>South</td>
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<td>UK</td>
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<tr>
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<td>3991</td>
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<td>2004</td>
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<td>2008</td>
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<td>4443</td>
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<td>61773</td>
<td>4463</td>
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<td>105.3</td>
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<td>2010</td>
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<td>4471</td>
<td>1558.0</td>
<td>160.5</td>
<td>105.2</td>
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</tbody>
</table>

Source: Statistical annex, European Economy, 2009
Perhaps the most important change in the relative status of the UK and the South is that the economic ‘size’ of the UK economy (as measured by the ratio of their total GDPs) fell dramatically from over 25 times larger in 1981 to just under ten times larger in 2010. Table 6.2 shows that this came about through a difference in growth rates, mainly during the heady years of the so-called Celtic Tiger between 1990 and 2000. Higher differential growth rates persisted beyond 2000, until the position was changed in 2008, but this was the period of unsustainable growth due to the building and credit boom, and was sharply reversed in 2008–2010 as Ireland suffered the full impacts of the banking crisis, the collapse of the construction sector and a serious fiscal crisis as sources of revenue dried up.

Table 6.2: The UK and Ireland: Comparative performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Pop ratio</th>
<th>GDP ratio</th>
<th>Growth dif.</th>
<th>UR dif.</th>
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<td>3.8</td>
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<td>1985</td>
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<td>-6.3</td>
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<tr>
<td>1988</td>
<td>16.1</td>
<td>23.2</td>
<td>0.7</td>
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</tr>
<tr>
<td>1989</td>
<td>16.3</td>
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<td>13.1</td>
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<tr>
<td>2003</td>
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<td>2006</td>
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<td>11.0</td>
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<td>2007</td>
<td>14.0</td>
<td>10.8</td>
<td>-3.4</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: Statistical annex, European Economy, 2009

(Highlights identify years where Irish performance exceeded that of the UK: i.e., higher growth or lower unemployment)

The deficiencies of using GDP per capita as a measure of welfare are well known. Even in the absence of the singularities of the Irish development model, this indicator captures what is produced in a country and says nothing about income distribution and economic equity. In a modern state, not everything that is produced necessarily increases welfare. But these complications are for a different forum, and we pass over them here. Taken at face value, the GDP per capita data of Table 6.1 suggests a stunning reversal of national fortune, where Ireland increased from a position of below 70 per cent of the EU-15 average at the start of the 1980s to a position of 134 per cent of the EU average at the peak of the recent boom, and is presently at a slightly lower figure of about 120 per cent of the average. The comparative indicator for the UK was about 90 per cent of the EU average at the start of the 1980s, and peaked at just below 110 per cent of the average in 2004, a position that it still maintains.

However, the GDP per capita data paint an excessively flattering picture of the state of the Irish economy, even if it still represents a very creditable performance of rapid ‘catch-up’. First, there are only two EU economies whose data on GDP are seriously distorted by the presence on their territory of a large number of foreign multi-national enterprises: Luxembourg and Ireland. The profit repatriation activities of foreign multi-nationals – a normal consequence of FDI – drives a wedge between what is produced in the host economy, and what is retained as income distributed to the citizens of the host economy. In the case of Luxembourg, the distortion caused by the presence of a large foreign banking sector is massive, and the ranking of Luxembourg using the GDP per capita measure places it today at a ridiculous value of 240 relative to an EU–15 average of 100. In the case of Ireland the distortion is much smaller, and a measure of it can be obtained from the measured size of profit outflows as recorded in the balance of payments on current account. Using a more relevant measure of GNP.

81 The data shown in Table 6.1 measure GDP per capita at what is called ‘purchasing power parity’. This became an issue as sterling fluctuated relative to the euro, but these distortions have been corrected.
per capita – which partially corrects for the profit repatriation distortion – would place Ireland today at about the EU-15 average, i.e. below the performance of the UK, which is largely unaffected by differences between GDP and GNP.

The relative performance of the UK and Irish labour markets, as illustrated by the rate of unemployment (ILO/LFS definition), is more mixed and illustrates the well-known fact that employment growth tends to lag well behind output growth. It was not until the year 1999 that the Irish unemployment rate fell below that of the UK. It remained below the UK until 2007, but what might be regarded as the more ‘traditional’ differential of higher Irish unemployment rates was quickly restored after the global recession hit both economies in 2008.

6.3 The regional productive structure of these islands

Table 6.3 shows the broad sectoral structure of the Irish and UK economies in terms of the sectoral share of gross value added (GVA) in total GVA over the period 1995–2008. At the level of seven fairly broad sectors there are some clear distinctions between the structures of the two economies. First, agriculture has always played a much smaller part in the UK economy than in Ireland. The UK was the first nation to undergo an industrial revolution in the 18th century, and again in the second industrial revolution of the mid to late 19th century. We saw earlier that the then Irish Free State was predominantly an agricultural economy at the time of partition, and remained so until well into the 1960s. Over the more recent years shown in Table 6.3 the GVA share of agriculture in the UK declined by about 50 per cent, from a small share of 1.8% to an even smaller one of 0.8%. The decline in the share for Ireland was even more dramatic, from 7% in 1995 to 1.4% by 2008. But, of course, in the case of the South this was mainly due to the dramatic expansion of non-agricultural sectors of the economy against a background of more modest growth in agricultural output.

The next difference between Ireland and the UK is the performance of the building and construction sector. In the case of the UK, the share of this sector remained fairly constant between 5% and 6%. However, the building boom in Ireland resulted in a massive expansion of the share of the sector from just over 5% in 1995 (similar to the UK share) to a peak of 10.2% in the year 2006. The unsustainability of this share was an underlying cause of the severity of the global recession on the Irish economy. Activity in building and construction is in the process of shrinking as a share of the economy and may well fall below the pre-1995 levels.

When one turns to the share of manufacturing, another striking difference between the Irish and UK economies becomes apparent. Ireland was late to industrialise and the catch-up period of the so-called Celtic Tiger during the 1990s was driven mainly by a rapid expansion of FDI into a selected group of sectors of manufacturing. The share of manufacturing in Ireland peaked in the year 1999 at 34.3% of total GVA. Thereafter the share declined, reaching 22% by 2008. In the UK, traditionally thought of as a manufacturing-based economy, the share in 1995 was just over 21%, and declined is each subsequent year to reach a low of 12.4% by 2008. We postpone examination of the consequences of this until we turn to the evolving structures of the UK regional economies.

In both Ireland and the UK, the sectoral share of trade, transport and commerce (i.e. wholesale and retail distribution) stayed fairly constant at between 17% and 19% in the case of Ireland and between 20% and 23% in the case of the UK. But the evolution of the other part of market services – financial and business services – increased dramatically in both economies, from 17% to 29% in Ireland and from 24% to 32% in the case of the UK. In the UK, this can be seen as a natural process of de-industrialisation, where many activities that were previously bundled into manufacturing now became classified as services. In addition, of course, there was a huge expansion of financial services, the future of which must now be in doubt. In the case of Ireland, some of the same de-industrialising processes were at work, as they are in all modern industrialised economies. In addition, there was considerable expansion of financial services, particularly international banking services based in the IFC in Dublin. But this sector also includes estate agency activities, which also grew dramatically as an aspect of the property boom during the years shown in Table 6.3.

The final broad sector is non-market services, consisting of public administration, health and
education. In neither economy was there any significant trend in this share. In the case of Ireland the share was about 20% at both the start and end of the period shown in Table 6.3, although there was a dip in the period between the so-called Celtic Tiger expansion of the 1990s and the onset of the building and credit-driven boom of the following decade.

In most cases, the patterns that we observe at the level of the UK economy as a whole are also repeated in the twelve UK regional economies. The degree of specialisation in agriculture varies between a low of almost zero for London to a high of 2.3 in the case of Northern Ireland. Certain UK regions have retained a specialisation in manufacturing. The UK average manufacturing share in 2007 was 12.7%. The highest shares by the end of the period – 2007 – were East Midlands (18.4%); Wales(17.9%) and North East (17.3%). The lowest share was London, at 5.2%. Scotland and Northern Ireland were only slightly above the UK average at 13.7% and 14.8%, respectively. This suggests that Northern Ireland continued to follow UK de-industrialising trends and did not succeed in restoring manufacturing as a core part of its development strategy.

The other pattern of note is that the share of non-market services varies across the UK regions. These consist of public administration, health, education and a residual category of community services. The UK average share in the year 2007 was 23.5% of

<table>
<thead>
<tr>
<th>Table 6.3: The UK and Ireland: Broad sectoral structure – 1995-2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sectoral GVA (shares)</strong></td>
</tr>
<tr>
<td><strong>Ireland</strong></td>
</tr>
<tr>
<td>Agriculture, forestry, fishing</td>
</tr>
<tr>
<td>7.0    6.4    5.2    4.4    3.6    3.2    2.8    2.4    2.4    2.3    1.8    1.5    1.5    1.4</td>
</tr>
<tr>
<td>Mining, Quarrying, Utilities</td>
</tr>
<tr>
<td>2.5    2.2    2.2    1.9    1.4    1.6    1.7    1.5    1.7    1.5    1.6    1.8    1.9    2.0</td>
</tr>
<tr>
<td>Building and Construction</td>
</tr>
<tr>
<td>5.3    5.5    5.6    6.0    6.6    7.5    7.8    7.7    8.1    9.0    10.0   10.2   9.6    8.5</td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>30.2   29.3   30.8   32.9   34.3   32.7   31.6   32.5   28.5   25.8   23.5   22.5   21.9   21.9</td>
</tr>
<tr>
<td>Trade, transport, commerce</td>
</tr>
<tr>
<td>17.4   18.8   18.6   18.2   17.8   17.9   16.7   16.4   17.2   17.6   17.5   17.5   17.5   17.5</td>
</tr>
<tr>
<td>Financial and Business Services</td>
</tr>
<tr>
<td>17.5   18.0   18.7   19.4   20.0   21.3   23.2   22.8   24.7   25.5   27.2   27.9   29.0   28.7</td>
</tr>
<tr>
<td>Non-Market services</td>
</tr>
<tr>
<td>20.1   19.9   18.9   17.2   16.2   15.9   16.1   16.6   17.4   18.3   18.4   18.6   18.5   20.0</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>100    100    100    100    100    100    100    100    100    100    100    100    100    100</td>
</tr>
<tr>
<td><strong>UK</strong></td>
</tr>
<tr>
<td>Agriculture, forestry, fishing</td>
</tr>
<tr>
<td>1.8    1.7    1.4    1.2    1.1    1.0    0.9    0.9    1.0    1.0    0.7    0.7    0.7    0.8</td>
</tr>
<tr>
<td>Mining, Quarrying, Utilities</td>
</tr>
<tr>
<td>4.8    5.1    4.6    4.0    4.0    4.7    4.3    4.0    3.7    3.6    4.0    4.4    4.3    5.2</td>
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<tr>
<td>Building and Construction</td>
</tr>
<tr>
<td>5.0    5.0    5.0    5.1    5.1    5.3    5.6    5.7    5.9    6.2    6.3    6.3    6.4    6.1</td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>21.2   20.6   20.3   19.4   18.4   17.4   16.4   15.3   14.3   13.6   13.3   12.9   12.4   12.4</td>
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<tr>
<td>Trade, transport, commerce</td>
</tr>
<tr>
<td>21.6   21.5   21.9   22.7   22.9   22.9   22.9   22.5   22.4   22.2   21.8   21.3   21.1   20.4</td>
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<tr>
<td>Financial and Business Services</td>
</tr>
<tr>
<td>23.7   24.6   25.4   26.3   27.0   27.0   27.8   29.1   29.9   30.2   30.4   31.0   31.9   32.2</td>
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<tr>
<td>Non-Market services</td>
</tr>
<tr>
<td>21.8   21.5   21.4   21.3   21.5   21.8   22.1   22.5   22.9   23.1   23.6   23.4   23.1   22.8</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>100    100    100    100    100    100    100    100    100    100    100    100    100    100</td>
</tr>
</tbody>
</table>
total GVA. Of the UK regional economies, Wales had the highest share of non-market activities (29.6%), followed closely by Northern Ireland (at 29%) and the North East (at 27.2%). The East of England had the lowest share (at 21.3%).

At the level of broad sectors of the economy we are unlikely to capture dramatic changes in structure over the period of not much more than a decade. But when we turn to the detail of one such sector – manufacturing – and examine it more closely, we do pick up cases where there were fairly sudden changes in the role of individual sub-sectors.

Table 6.4 shows the manufacturing sub-sectors for Ireland at the NACE two-digit level, i.e. aggregate manufacturing is disaggregated into fourteen sub-sectors. Table 6.5 shows the same data for the UK as a whole.

Since the economy of Ireland is much smaller than the UK, it needs to specialise in a few sub-sectors of manufacturing. Ireland simply could not sustain a wide range of sub-sectors. If it tried to do this – as it did behind protective tariff barriers between 1932 and 1960 – the small size of the local market and the limited range of experience of the labour force would result in low productivity. The economy of the UK is more extensive, and different regions tend to specialise in different areas of activity. Regions and their specialisations rise and fall over time, even if the national average for the UK as a whole displays a degree of stability.

### Table 6.4: Republic of Ireland – manufacturing sub-sectors: shares of total GVA (1995-2007)

<table>
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<tr>
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<tbody>
<tr>
<td>DA: Manufacture of Food Products; Beverage and Tobacco</td>
<td>25.9</td>
<td>25.3</td>
<td>22.1</td>
<td>20.0</td>
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<td>18.5</td>
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<td>19.8</td>
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<td>22.1</td>
<td>18.7</td>
<td>18.9</td>
<td>19.2</td>
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<td>DB: Manufacture of Textiles and Textile Products</td>
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<td>2.3</td>
<td>1.9</td>
<td>1.8</td>
<td>1.2</td>
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<td>0.6</td>
<td>0.3</td>
<td>0.5</td>
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<tr>
<td>DC: Manufacture of Leather and Leather Products</td>
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<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>DD: Manufacture of Wood and Wood Products</td>
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<td>0.8</td>
<td>0.9</td>
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<td>1.2</td>
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<tr>
<td>DE: Manufacture of Pulp, Paper Products Publishing and Printing</td>
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<td>9.9</td>
<td>9.8</td>
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<td>12.6</td>
<td>12.7</td>
<td>11.9</td>
<td>10.8</td>
</tr>
<tr>
<td>DF: Manufacture of Coke, Refined Petroleum and Nuclear Fuels</td>
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<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
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</tr>
<tr>
<td>DG: Manufacture of Chemicals, Products and Man-made Fibre</td>
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<td>25.9</td>
<td>30.3</td>
<td>36.8</td>
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<td>34.1</td>
<td>34.4</td>
<td>32.8</td>
<td>35.1</td>
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<tr>
<td>DH: Manufacture of Rubber and Plastic Products</td>
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<td>2.3</td>
<td>2.1</td>
<td>2.0</td>
<td>1.5</td>
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<td>1.5</td>
<td>1.6</td>
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<tr>
<td>DI: Manufacture of other Non-metallic products</td>
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<td>2.7</td>
<td>2.5</td>
<td>2.3</td>
<td>2.4</td>
<td>2.1</td>
<td>1.9</td>
<td>2.1</td>
<td>2.1</td>
<td>2.7</td>
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<td>3.1</td>
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Table 6.4 for Ireland covers the period 1995-2007. During that time there were no major shifts in industrial strategy, even if the manner in which the strategy was implemented was improved and tuned to emerging developments in the global market for FDI. In terms of their 2007 share of GVA, there are only four dominant sectors in Irish manufacturing: chemicals and associated products (35%); electrical and optical equipment (18.3); food products and beverages (19.2%) and paper and publishing (10.8%). These four dominant sectors accounted for over 83% of total GVA in manufacturing. This structure has important implications for the development of the island economy, and for North-South interactions on the island of Ireland, but we will address these in the next chapter.

The degree of sectoral specialisation in UK manufacturing is much less pronounced, as seen in Table 6.5. Of course, sub-sectors that were dominant in the past in the UK – textiles and clothing, leather goods, wood products – have all but vanished, as indeed they have in Ireland as well. But manufacturing activity is spread fairly evenly over the other sectors. Six sectors have about equal shares of GVA: food processing, paper & publishing, chemicals, metal products, electrical and optical equipment and transport equipment, all with between 10% and 14% of total GVA. However, examination of the equivalent tables for UK regional manufacturing shows how specialisation is a ‘spatial’ phenomenon, and only becomes apparent when one investigates the structure of the regions. If, at the regional level, one continues to see a lack of sectoral specialisation, this is usually a bad sign and indicates that there is no guiding regional industrial strategy. As we show in the next section, the Northern Ireland manufacturing sector suffers from this problem.

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<tr>
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<td>DI: Manufacture of other Non-metallic products</td>
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Chapter 7: The island economy context for the border region

7.1 Introduction

In the previous chapter we examined the Republic of Ireland (henceforth, the South in this and subsequent chapters) in the context of the UK as a whole as well as in the context of the twelve standard regions that make up the UK, including Northern Ireland (henceforth, the North). Although there are insights to be gained from a comparison of the UK and the South’s national economies, it was more useful to disaggregate the UK into its twelve standard regions, since the UK regional economies displayed many of the features that are to be found in the much smaller and sectorally focused Southern economy. Specifically, the degree and extent of sectoral specialisation only emerges when one looks at the smaller regional economies of these islands.

We now turn to an examination of the Northern and Southern economies in the narrower context of the island of Ireland. There are many reasons why it is important to examine this separately from the wider UK comparison. The two regional economies on this island are not very dissimilar in size. Indeed, the relative size of the South and North in terms of population broadly resembles those of two Baltic States, Lithuania and Estonia, where the South resembles Lithuania and the North resembles Estonia. The fact that two Irish economies operate within a small island demands that we interpret their performance and potential in the light of that fact.

Inter-regional activity between the South and North is much more intense than it is between the South and other UK regions in Britain, and covers a much wider range of activities related to trade, migration flows, cultural connections, infrastructure planning, industrial strategy, etc. The power-sharing administration in Belfast has a degree of policy autonomy, although this is considerably less than the autonomy of the government of the South. Nevertheless, both regions are small and very open economies and are buffeted by external, global forces. While the primary goal of the Northern authorities is focused on ensuring optimal performance within the UK, and the goal of the Southern government is focused on its performance within the wider EU and global economy, nevertheless both regions have to take into account their interactions with each other. The underlying challenge is to ensure that North-South interactions generate a positive-sum game, and do not degenerate into a zero or negative-sum game.

History has also cast a long shadow on these two regional economies. Perhaps the best account of how history shaped and warped economic developments on this island is that of the Norwegian sociologist, Lars Mjøset, in his seminal NESC study *The Irish Economy in a Comparative Institutional Perspective* (Mjøset, 1992). As background to the narrower economic issues of the island’s history, Cormac Ó Gráda’s *Ireland: A New Economic History 1780–1939* continues to be relevant to interpreting today’s challenges (Ó Grada, 1996).

The development trajectories of Northern Ireland and the South have been radically different over the past century, and this history continues to colour and influence events and actions today. In the case of the economic region that is now the North, we saw in an earlier chapter that the defining event was the evolution of a dynamic industrial agglomeration in the late 19th century, centred mainly on Belfast, when the region became a major player on the world stage in terms of shipbuilding, engineering, textiles and clothing. The strategic importance of these industries in the UK context probably played a part in the manner of the partition of the island in 1920. Northern industrial specialisation continued after the First World War and the region suffered in much the same way as did Britain during the inter-war period, which was characterised by global recession and the

82 The efforts within the North to obtain a lower, Southern-style rate of corporation tax is an example of where policy in the North needs to take account of policy in the South. The consequences for Southern retail trade of a weak sterling exchange rate against the euro is an example where the South must take account of the consequences of policy in the North. In neither case can these policy fault lines be addressed unilaterally, but their consequences need to be fully understood.

83 More formally, the South and North can be viewed in a stylised way as seeking a ‘Nash’ equilibrium, which is a solution concept of a game involving two or more players, in which each player is assumed to know the equilibrium strategies of the other players, and no player has anything to gain by unilaterally changing only his or her own strategy. Hence, if each region has chosen a strategy, and if neither region can benefit by changing its strategy while the other region keeps it unchanged, then the current set of strategy choices and the corresponding pay-offs constitute a Nash equilibrium. This equilibrium is Pareto efficient if it is impossible to make one region better off without necessarily making the other region worse off.
breakdown of free trade. The decline was temporarily interrupted by the Second World War. During the post-war period to the mid-1960s there was a shift towards newer specialisations in textiles (i.e. artificial fibres) and transport (aerospace). However, the onset of civil unrest in the late 1960s, combined with the escalating price of oil, brought about a rapid contraction of Northern manufacturing that followed a similar pattern in the UK over the period prior to the 1998 Belfast Agreement (Figure 7.1).

Figure 7.1: Employment in manufacturing: GB, NI and South

Although the North experienced a contraction in manufacturing similar to that of Britain, the response of the other non-manufacturing sectors was very different. In Britain the off-setting expansion occurred in market services, with different degrees of specialisation in different British regions. In the North it was initially the public sector that expanded to fill the gap created by de-industrialisation, and the challenge facing the post-Belfast Agreement devolved administration today continues to focus on the need to design policies to address that outcome. A secondary impact of the expansion of the public sector and the subvention finance from Britain was the expansion of elements of the market services sector. In summary, one can say that the North did not consciously choose its present economic structure in the manner – say – that the South put in place specific policies that produced its present industrial structure. Rather, history has shaped the present day Northern economy, and political and civil disruption since the mid-1960s made it very difficult to move the economy purposefully in the direction of any preferred alternative structure.

Turning to the development trajectory of the South, this region of the island never experienced the full effect of the industrial revolution of the late 19th century in the way that the North did. At the time of partition in 1920, the then Irish Free State was an agricultural economy with a very small, mainly agri-business industrial sector (Table 7.1).

Table 7.1: Sectoral structure of the Free State economy: 1926

The newly independent Southern economy was comprehensively integrated into the encompassing UK (mainly British) economy, and was to remain so until well into the 1970s, as illustrated by the trade shares with Britain, the North and the rest of the world (Figure 7.2). It was not until the 1980s that the UK share of Southern exports fell below 50% of total Irish exports.

Figure 7.2: Southern trade integration with the UK: 1924–1950

The first opportunity for the Irish Free State to industrialise came with the collapse of the global free trade arrangements associated with the onset of depression in the late 1920s and the 1930s. The Irish government was able to use high tariff barriers to protect new industries across all sectors, and aimed both to create a new industrial base and to become less dependent on British imports. This process was quite successful, in terms of its contemporary aims, and an industrial base of sorts gradually arose behind the high protective tariffs. However, the protected firms, free of international competition from imports, proved inefficient and never managed to develop any exporting capacity.
After the Second World War, Southern manufacturing stagnated and the country was exposed to serious balance of payments crises and massive out-migration.

The reforms in the South ushered in after 1958 by Economic Development and the First Programme for Economic Expansion are well known: abolition of tariffs, removal of all restrictions on foreign ownership of firms, an attempt to attract inward investment through a low rate of corporation tax, improvements in physical infrastructure, reform of the education system and targeted assistance to firms (see Bradley, 1989). The culmination of this process was a long time coming, but eventually found expression in the so-called Celtic Tiger period of the 1990s (as previously shown in Figures 7.1 and 7.2). Unlike the case of the North, one can say that policy makers in the South did consciously choose the present structure of the economy, in the sense that they designed and implemented policies that led inexorably to a small number of foreign-dominated, high technology sub-sectors. In the South, the major challenge to be faced today is to prevent the decline of the manufacturing base by renewing the industrial strategy that served the state so well since the early 1960s.

In structuring this chapter we had first to address the following question. Are the regional economies of the South (i.e. the eight standard planning regions) analogous to the sub-regional economies of NI? This is a more difficult choice than deciding that the economy of the South is analogous to the standard regional economies of the UK, as we did in the previous chapter. A case could be made in either direction. However, in light of the data difficulties at the sub-regional level to be discussed later, on balance we considered that it was preferable to analyse the island economy initially in terms of only two sub-regions, the South and the North as aggregates, and to leave the question of sub-regions of the North and the regions of the South to the next chapter, where we focus specifically on the nature of the cross-border region.

In Section 7.2 we compare the performance of the South and the North in the post-Belfast Agreement era of 1998 to the present. In doing this we highlight the difficulties created by the somewhat challenging nature of economic data in the North, where there are no formal, complete regional accounts. This complicates the analysis of comparative performance even at the level of these two ‘macro’ regions, but does not prevent it completely. We then examine the comparative structure of the two economies in Section 7.3, based on data for sectoral gross value added (GVA) and data on employment. We have already touched on this topic in the previous section, when we examined the UK regional economies. Here we go rather deeper. In particular, we link structure to North–South trade performance on the island, and identify an important barrier to greater economic synergies between the South and North that arises due to the rather different productive structure of the two economies.

In Section 7.4 we turn to the question of economic development strategy in the South and North, an aspect that we have already touched on previously in Chapters 2 and 3. This material is of vital importance for the regions of the island economy, since all major policies are set almost completely at the national level in the South, and are influenced, at least to some degree, at the level of the Northern devolved administration, to the extent that they are not determined by London. Although development policy can be influenced at the level of the separate regions of the South and at the levels of the sub-regions of the North, this can only be done to a very modest and marginal extent. Of greater interest are the consequences of the obvious asymmetry that exists between the more extensive policy freedom of the Southern government and the more constrained policy freedom of the devolved Northern administration, and the difficulties that this creates for North–South interaction and co-operation. It is of particular interest to compare and contrast the main development strategies in the South and the North.

84 By regional accounts we mean fairly complete data on the output, expenditure and income sides of the economy, including comprehensive data on government revenue and expenditure and on external payment flows. In a federal state like Germany, such regional data exist in much the same way as data on a national economy exist. However, many aspects of regional data in the UK are either missing or are mired in definitional changes that make them almost impossible to use for inter-temporal analysis. We return to this issue later in the report.
7.2 Island economy performance since the Belfast Agreement

National economies tend to have complete sets of national accounting data. This includes information on movements in price deflators whose purpose is to monitor national and sectoral inflation rates so that changes in quantities expressed in current prices can be converted to changes in constant prices. Such price data, unfortunately, tends not to be gathered at regional levels, either in the South or in the UK. Indeed, the only regional price data that is usually available is the price of labour, in the form of wage rates by region and by sector within regions. When attempting to compare the real growth performance of the Southern economy as a whole with that of the Northern ‘regional’ UK economy, we run up against this challenge.

A simple approach is to use national deflators to derive constant price versions of regional variables. This is illustrated in Table 7.2, where we show the implicit price deflators of total GVA in basic prices for the South and for the UK. If we assume that the national GVA price deflator for the UK is appropriate as a substitute for the missing Northern price deflator, we can derive constant price versions of GVA, and the real growth rate of this variable. These are presented also in Table 3.2.

There are various reasons why this crude approach may give misleading results. For example, the sectoral structure of the Northern ‘regional’ economy differs from that of the UK as a whole. So an improved approach might be to break down GVA into a series of broad sectors and even detailed sub-sectors. One could then weight the national sectoral price deflators so that any differences in structure were taken into account. But even still we would have to make the assumption that a ‘widget’ produced in the North would be priced identically to a ‘widget’ produced and sold in all other regions of the UK.85

The pattern of growth in the South is fairly clear. There was a sustained period of strong growth from 1995 to 2007, and then the global recession quickly dominated the economy, made worse by the serious imbalances that had been permitted to grow up in the years immediately prior to 2007. The picture of UK growth is much steadier, and the onset of the global recession slower. What we see in the North is a regional economy that moves ahead of national growth in some years, and falls behind in others. The driving forces of the Northern economy are more diffused. There is the steadying presence of the UK subvention which, by sustaining a large public sector, serves to dampen the normal up-side of the business cycle. There was the proximity of the Southern economy during the boom times, and the positive impact that this had on the Northern labour market as the South experienced an extended period of full employment. And there was the high level of trade integration with the British economy, which

| Table 7.2: Comparative real growth rates – South, North and UK |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| South | 8.89 | 10.66 | 8.15 | 10.33 | 8.74 | 6.98 | 6.72 | 4.28 | 4.30 | 4.76 | 5.00 | 6.97 | -1.24 |
| North | 1.86 | 5.20 | 3.94 | 4.39 | 4.11 | 1.22 | 0.51 | 3.46 | 4.41 | 2.49 | 3.54 | 1.56 | na |
| UK | 2.76 | 3.30 | 3.79 | 3.58 | 3.92 | 2.25 | 1.81 | 2.84 | 2.89 | 2.37 | 2.97 | 2.64 | 0.60 |

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85 Economists use the term ‘widget’ to refer to any generic manufactured good. Whereas in the case of the regions of the Republic of Ireland there is little need to derive regional price deflators, in the diverse and regionalised UK economy such data are both necessary and useful. It is unfortunate that the national UK statistical agency ignores the matter and perpetuates confusion when talking about ‘growth rates’ at a regional level in current rather than in constant prices.
itself would serve to promote steady performance. The fact that the Northern growth rate seems to fluctuate more than that of the UK as a whole may simply be a result of our very rough attempt to derive a ‘real’ growth measure. It may also be due to the well-known fact that regional data tends to be less reliable than national data, as revealed by the large-scale revisions regularly made to the UK regional accounts.

7.3 The structure of the two island economies and consequences for North-South trade

We turn now to comparing the structure of the Southern and Northern economies. Tables 7.3 and 7.4 present data on the ‘broad’ sectoral share structure for the years 1995-2007.

As with the comparison of the Republic of Ireland and the UK, there are some similar patterns of behaviour as well as some striking differences. In both of the island economies the agricultural sector continues to play an important, if gradually diminishing, role. In both economies the share of building and construction was similar in 1995 (between 5% and 6% of total GVA), but it rose dramatically to a peak of between 8% and 10% in 2006, just before recession hit.

Manufacturing in the year 1995 had a much bigger share in the South (over 30%) compared with 20% in the North. But in both economies the share declined steadily by 2007 to 22% (South) and 15% (North). Of course manufacturing output was growing for all but the final year of this period, in current and in (imputed) constant price terms. But other sectors grew even faster, albeit in an unsustainable fashion, and the manufacturing share contracted.

The main source of the fall in the share of manufacturing was common as between the South and North. In the South we see from Table 7.3 that the share of trade, transport and commerce remained fairly constant, and the non-market share of GVA actually declined slightly. But there was a massive increase in the share of financial and business services, from 17.5% in 1995 to a peak of 29% in 2007. Earlier we explained this as a consequence of the Southern building boom, the associated expansion of real estate activities and the expansion of banking and other financial services. In other words, the entirely sustainable expansion of the manufacturing sector that took place during the 1990s (the ‘real’ Celtic Tiger period) was replaced by a completely unsustainable expansion of non-internationally traded activities in the market service sector (the ‘false’ Celtic Tiger period).

Table 7.3: South - broad sectoral production structure – shares of GVA

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</thead>
<tbody>
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<td>Agriculture, forestry, fishing</td>
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<td>5.2</td>
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<td>3.6</td>
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<td>2.3</td>
<td>1.8</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Mining, Quarrying, Utilities</td>
<td>2.5</td>
<td>2.2</td>
<td>2.2</td>
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<td>1.4</td>
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<td>1.7</td>
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</tr>
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<td>29.3</td>
<td>30.8</td>
<td>32.9</td>
<td>34.3</td>
<td>32.7</td>
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<tr>
<td>Financial and Business Services</td>
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<td>18.7</td>
<td>19.4</td>
<td>20.0</td>
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<td>25.5</td>
<td>27.2</td>
<td>27.9</td>
<td>29.0</td>
</tr>
<tr>
<td>Non-Market services</td>
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<td>19.9</td>
<td>18.9</td>
<td>17.2</td>
<td>16.2</td>
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</tr>
</tbody>
</table>

Table 3.4: North - broad sectoral production structure – shares of GVA

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</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing</td>
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<td>4.9</td>
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<td>2.5</td>
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<td>1.6</td>
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<tr>
<td>Mining, Quarrying, Utilities</td>
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</tr>
<tr>
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<td>20.1</td>
<td>19.5</td>
<td>20.1</td>
<td>20.1</td>
<td>19.7</td>
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<td>20.9</td>
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</tr>
<tr>
<td>Financial and Business Services</td>
<td>13.8</td>
<td>14.4</td>
<td>15.0</td>
<td>15.1</td>
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<td>19.1</td>
<td>19.8</td>
<td>21.2</td>
<td>22.4</td>
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<tr>
<td>Non-Market services</td>
<td>34.6</td>
<td>33.2</td>
<td>33.0</td>
<td>32.7</td>
<td>32.0</td>
<td>31.3</td>
<td>31.9</td>
<td>32.7</td>
<td>32.6</td>
<td>31.0</td>
<td>30.8</td>
<td>30.3</td>
<td>29.0</td>
</tr>
</tbody>
</table>
In the North the trade, transport and commerce share increased by a small amount, but the financial and business services sector underwent the same kind of unsustainable expansion that was occurring in the Southern economy. It should be noted that although the Northern non-market services sector did not increase its share of the economy over this period, at between 30-35% of the economy, it is considerably larger than in the South, where it ranged between 16-20%.

Although the pattern of broad sectoral shifts in the South and North have similarities, the underlying mechanisms that supported them are very different. In the case of the South, the boom years of the ‘real’ Celtic Tiger (1990-2002) relieved pressures on the public finances and provided resources to the private business sector as well as to the household sector to engage in investment and consumption behaviour that was fairly soon to be shown to be unsustainable. The subsequent deterioration in the public finances served to exacerbate further the effects of an already serious global recession.

The willingness and ability of the UK government to provide subvention finance to maintain a large public sector in the North meant that the public finance consequences will bear on the UK as a whole, and not on the Northern power-sharing administration. We return below to the possible consequences of a restriction in subvention aid to the North as a result of the fiscal restructuring that is being implemented by the UK government.

Turning to the sub-sectoral structure of manufacturing in the South and North, the relevant data are shown in Tables 7.5 and 7.6. We have previously commented on the extreme degree of sectoral specialisation in Southern manufacturing, where three of the four sectors that make up almost two-thirds of total GVA are dominated either by foreign multinationals or – in the case of printing and reproduction of recorded media – by close links via sub-supply to the foreign-owned sector.

The degree of sectoral specialisation in Northern manufacturing is considerably less than is the case in the South. The dominant sub-sector is food processing, and this sector succeeded in increasing its share of GVA from 23% in 1995 to a peak of 27% in 2005, and was slightly lower at 26% in 2007. Examination of North-South trade data suggests that increased demand from the South was the underlying cause of this increase. Specialisation in the North seems to have occurred in this sector rather than in more high technology sectors as it did in the South.

The inexorable decline of the textiles and clothing sector in the North is particularly evident, where the GVA share fell from 14.2% in 1995 to 2.9% by 2007. This sector had largely vanished in the South by 1995, although the elements that remained were focused on the high fashion end of the market and were sustainable even in a high wage economy.

It is seen that there is a band of manufacturing sub-sectors in the North that have shares of GVA that are in the range 6% to 10%. These include the remnants of the older manufacturing base that served the North well in a previous era, such as man-made fibres, plastic products, non-metallic products, fabricated metal products, machinery and equipment, electrical and transport equipment. Together, these account for over 55% of NI manufacturing GVA.

7.4 The Southern and Northern manufacturing portfolios

It is worth reviewing an important aspect of the emergence and characteristics of the portfolio imbalance in Northern manufacturing, namely the continued existence into the immediate pre-Belfast Agreement period of a range of traditional labour-intensive sectors in an economy that should have divested itself of these sectors many years previously. Textiles and clothing sectors were the largest component of manufacturing in Northern Ireland in the year 1924. In terms of output, they

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86 It is surprising as well as puzzling that the ‘real’ and ‘false’ Celtic Tiger processes have become inextricably confused in most contemporary media commentary. The ‘half-life’ of economic memory seems to be considerably shorter than even one decade. The very term ‘Celtic Tiger’ was never very satisfactory. But to see it abused as a description of the unsustainable banking driven building boom of the ‘noughties’ is particularly depressing.

87 It could be held that a major cost to the Northern economy of the period of civil unrest since 1968 was the slowing down of the normal forces of sectoral restructuring and renewal that operated much more vigorously in Britain and in the South. Continuing claims that the North be treated as a special case within the UK merely prolonged the necessary changes.
made up 54 per cent in the North, but only slightly above 2 per cent in the South.\footnote{88}

Over the intervening years, the sector declined in the North and grew somewhat in the South. For example, in the years 1951 (immediately before the switch to outward policies in the South), 1961 (immediately after that switch) and 1967 (immediately before the outbreak of civil unrest in NI), the employment composition of manufacturing was as shown in Table 7.7. By the year 1967, the textiles and clothing sector in the South had grown to just over 25% of total employment in manufacturing (its peak), while in the North it had continued an inexorable decline to just under 42%.

In table 7.8 an attempt at portfolio analysis for the North is presented, while an analogous portfolio for the South is presented in Table 7.9. Both refer to the period after the ceasefires but before the Belfast Agreement (1991–96 for Northern Ireland and 1991–1998 for the Republic).\footnote{89}

### Table 7.5: Southern manufacturing sub-sectors: shares of total GVA (1995–2007)

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</thead>
<tbody>
<tr>
<td>DA: Manufacture of Food Products; Beverage and Tobacco</td>
<td>25.9</td>
<td>25.3</td>
<td>22.1</td>
<td>20.0</td>
<td>20.8</td>
<td>18.5</td>
<td>20.4</td>
<td>19.8</td>
<td>23.8</td>
<td>22.1</td>
<td>18.7</td>
<td>18.9</td>
<td>19.2</td>
</tr>
<tr>
<td>DB: Manufacture of Textiles and Textile Products</td>
<td>2.4</td>
<td>2.3</td>
<td>1.9</td>
<td>1.8</td>
<td>1.2</td>
<td>1.1</td>
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<td>0.6</td>
<td>0.7</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>DC: Manufacture of Leather and Leather Products</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
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<td>0.1</td>
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<td>0.1</td>
</tr>
<tr>
<td>DD: Manufacture of Wood and Wood Products</td>
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<td>0.8</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
<td>3.4</td>
</tr>
<tr>
<td>DE: Manufacture of Pulp, Paper Products Publishing and Printing</td>
<td>9.0</td>
<td>9.9</td>
<td>9.8</td>
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<td>12.6</td>
<td>12.7</td>
<td>11.9</td>
<td>10.8</td>
</tr>
<tr>
<td>DF: Manufacture of Coke, Refined Petroleum and Nuclear Fuels</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>34.1</td>
<td>34.4</td>
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<td>35.1</td>
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<td>DH: Manufacture of Rubber and Plastic Products</td>
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<td>2.1</td>
<td>2.0</td>
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<td>1.5</td>
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<td>1.6</td>
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<tr>
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<td>2.7</td>
<td>2.7</td>
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<td>2.3</td>
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<td>2.1</td>
<td>2.7</td>
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<td>3.1</td>
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<td>DJ: Manufacture of Basic Metals and Fabricated Metal Products</td>
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<td>2.2</td>
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<tr>
<td>DR: Manufacture of Machinery and equipments nec.</td>
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<tr>
<td>DL: Manufacture of Electrical and Optical Equipment</td>
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<tr>
<td>DM: Manufacture of Transport Equipment</td>
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<td>1.5</td>
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</tr>
</tbody>
</table>

\footnote{88} See Bradley (2006b) for the details of earlier degrees of sectoral specialisation on the island.

\footnote{89} More recent published Southern Census of Industrial Production data (up to the year 2007) show that the South’s portfolio of manufacturing sectors has remained rather stable. What limited data that we have suggests that the trend decline in the North accelerated after 1996. We use the situation in 1996 to represent the facts of economic life that were known to the various participants involved in designing the institutions of the Belfast Agreement. The poor quality of the Northern data impedes the updating of these tables.
### Table 7.6: Northern manufacturing sub-sectors: shares of total GVA (1995–2007)

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<tr>
<td>DA: Manufacture of Food Products; Beverage and Tobacco</td>
<td>23.0</td>
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</tr>
<tr>
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<tr>
<td>DE: Manufacture of Pulp, Paper and Products Publishing and Printing</td>
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<td>7.3</td>
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<td>0.1</td>
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<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>DG: Manufacture of Chemicals, Chemical Products and Man-made Fibre</td>
<td>8.0</td>
<td>8.3</td>
<td>7.4</td>
<td>6.9</td>
<td>6.5</td>
<td>5.9</td>
<td>6.1</td>
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<td>6.0</td>
<td>5.7</td>
<td>6.1</td>
<td>6.7</td>
<td>7.2</td>
</tr>
<tr>
<td>DH: Manufacture of Rubber and Plastic Products</td>
<td>4.7</td>
<td>4.8</td>
<td>5.3</td>
<td>5.4</td>
<td>5.3</td>
<td>5.3</td>
<td>5.7</td>
<td>6.3</td>
<td>6.9</td>
<td>7.4</td>
<td>7.4</td>
<td>6.8</td>
<td>6.5</td>
</tr>
<tr>
<td>DI: Manufacture of other Non-metallic products</td>
<td>5.3</td>
<td>5.0</td>
<td>4.7</td>
<td>4.4</td>
<td>4.4</td>
<td>4.5</td>
<td>4.7</td>
<td>5.3</td>
<td>6.0</td>
<td>6.2</td>
<td>6.5</td>
<td>6.6</td>
<td>6.6</td>
</tr>
<tr>
<td>DJ: Manufacture of Basic Metals and Fabricated Metal Products</td>
<td>5.1</td>
<td>5.1</td>
<td>5.3</td>
<td>5.3</td>
<td>5.1</td>
<td>5.1</td>
<td>5.4</td>
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<td>6.7</td>
<td>7.6</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
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<td>7.8</td>
<td>7.3</td>
<td>6.7</td>
<td>6.0</td>
<td>5.2</td>
<td>5.3</td>
<td>5.9</td>
<td>6.8</td>
<td>7.3</td>
<td>7.5</td>
<td>7.5</td>
<td>8.2</td>
<td>8.2</td>
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<tr>
<td>DL: Manufacture of Electrical and Optical Equipment</td>
<td>9.0</td>
<td>9.3</td>
<td>9.7</td>
<td>10.4</td>
<td>12.1</td>
<td>13.8</td>
<td>13.0</td>
<td>11.9</td>
<td>10.5</td>
<td>9.6</td>
<td>9.5</td>
<td>9.8</td>
<td>10.3</td>
</tr>
<tr>
<td>DM: Manufacture of Transport Equipment</td>
<td>9.5</td>
<td>9.9</td>
<td>11.0</td>
<td>11.9</td>
<td>12.2</td>
<td>12.2</td>
<td>12.2</td>
<td>12.0</td>
<td>11.2</td>
<td>10.5</td>
<td>10.0</td>
<td>9.5</td>
<td>8.6</td>
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<tr>
<td>DN: Manufacture not elsewhere classified</td>
<td>2.8</td>
<td>2.9</td>
<td>3.0</td>
<td>2.9</td>
<td>2.9</td>
<td>3.0</td>
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<td>4.6</td>
<td>5.2</td>
<td>6.1</td>
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Table 7.7. Employment in Irish manufacturing, 1951-67

<table>
<thead>
<tr>
<th>Industry</th>
<th>1951 Numbers</th>
<th>1961 Numbers</th>
<th>1967 Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Ireland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Textiles</td>
<td>70,658</td>
<td>47,965</td>
<td>42,412</td>
</tr>
<tr>
<td>Clothing</td>
<td>27,025</td>
<td>23,820</td>
<td>21,959</td>
</tr>
<tr>
<td>Engineering and metal</td>
<td>43,461</td>
<td>51,508</td>
<td>49,260</td>
</tr>
<tr>
<td>Food, drink and tobacco</td>
<td>20,802</td>
<td>25,195</td>
<td>26,191</td>
</tr>
<tr>
<td>Mineral products</td>
<td>3,143</td>
<td>4,173</td>
<td>4,243</td>
</tr>
<tr>
<td>Timber and furniture</td>
<td>3,926</td>
<td>2,653</td>
<td>3,252</td>
</tr>
<tr>
<td>Paper, printing etc</td>
<td>4,500</td>
<td>4,954</td>
<td>5,404</td>
</tr>
<tr>
<td>Miscellaneous trades</td>
<td>3,631</td>
<td>3,612</td>
<td>7,081</td>
</tr>
<tr>
<td>Total manufacturing</td>
<td>177,146</td>
<td>163,880</td>
<td>159,802</td>
</tr>
</tbody>
</table>

| Republic of Ireland    |              |              |              |
| Textiles               | 9,535        | 15,394       | 15,504       |
| Clothing               | 28,092       | 27,808       | 29,729       |
| Engineering and metal  | 18,019       | 26,407       | 33,014       |
| Food, drink and tobacco| 42,038       | 46,317       | 50,668       |
| Mineral products       | 5,029        | 6,030        | 7,995        |
| Timber and furniture   | 8,766        | 6,963        | 7,726        |
| Paper, printing etc    | 12,343       | 14,969       | 15,156       |
| Miscellaneous trades   | 16,461       | 14,007       | 17,776       |
| Total manufacturing    | 140,283      | 157,622      | 177,568      |

Source: Report on the census of production for Northern Ireland (Belfast: Northern Ireland Statistical Agency, various years); Census of industrial production (Dublin: Central Statistics Office, various years).

Table 7.8. Sectoral portfolio in Northern manufacturing, 1996

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, drink and tobacco</td>
<td>2,726</td>
<td>30.9</td>
<td>2,390</td>
<td>2.7</td>
<td>19,370</td>
<td>19.0</td>
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<tr>
<td>Textiles, clothing and leather</td>
<td>1,167</td>
<td>13.2</td>
<td>849</td>
<td>6.6</td>
<td>23,800</td>
<td>23.4</td>
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<tr>
<td>Electrical and optical equipment</td>
<td>829</td>
<td>9.4</td>
<td>384</td>
<td>16.6</td>
<td>9,330</td>
<td>9.2</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>742</td>
<td>8.4</td>
<td>652</td>
<td>2.6</td>
<td>10,810</td>
<td>10.6</td>
</tr>
<tr>
<td>Other machinery and equipment</td>
<td>671</td>
<td>7.6</td>
<td>328</td>
<td>15.4</td>
<td>6,850</td>
<td>6.7</td>
</tr>
<tr>
<td>Chemicals and man-made fibres</td>
<td>600</td>
<td>6.8</td>
<td>450</td>
<td>5.9</td>
<td>3,620</td>
<td>3.6</td>
</tr>
<tr>
<td>Rubber and plastics</td>
<td>502</td>
<td>5.7</td>
<td>319</td>
<td>9.5</td>
<td>6,280</td>
<td>6.2</td>
</tr>
<tr>
<td>Paper and printing</td>
<td>440</td>
<td>5.0</td>
<td>297</td>
<td>8.2</td>
<td>6,400</td>
<td>6.3</td>
</tr>
<tr>
<td>Other non-metallic mineral products</td>
<td>364</td>
<td>4.1</td>
<td>256</td>
<td>7.3</td>
<td>4,360</td>
<td>4.3</td>
</tr>
<tr>
<td>Basic metals and fabricated metal products</td>
<td>330</td>
<td>3.7</td>
<td>221</td>
<td>8.3</td>
<td>5,140</td>
<td>5.0</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>286</td>
<td>3.2</td>
<td>192</td>
<td>8.3</td>
<td>2,750</td>
<td>2.7</td>
</tr>
<tr>
<td>Other manufacturing n.e.s.</td>
<td>167</td>
<td>1.9</td>
<td>113</td>
<td>8.1</td>
<td>3,180</td>
<td>3.1</td>
</tr>
<tr>
<td>Total</td>
<td>8,824</td>
<td>100.0</td>
<td>6,451</td>
<td>6.8</td>
<td>101,890</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: Average annual inflation rate of UK manufacturing output (1991-96) = 2.65%.

Source: Northern Ireland Sales and Exports (Belfast: Northern Ireland Economic Research Centre, various years).
Taking the North first (Table 7.8), the key characteristics of the portfolio of manufacturing sectors in 1996 were as follows:

1) Food processing was the predominant sector in terms of output share (31%), but only second in terms of employment share (19%). In terms of average annual growth over the five-year period 1991–96, it was stagnant in real terms.

2) Textiles and clothing had the second largest output share (13%), but the largest employment share (23%), characterizing it as having very low productivity. Average annual real growth was only about 4%, and possibly lower, since price competition is very strong in the sector.

3) Electrical and optical goods was the third largest sector in terms of output (9%), and fourth in terms of employment share (also 9%). This was also a very high growth sector (about 14% per year in real terms). The characteristics of transport equipment are very similar.

4) For all the other sectors, both output and employment shares were small, ranging from 2% to 8% in the case of output and 3% to 7% in the case of employment, with real growth rates clustering closely about the average of 4% per year.

Turning to the South, the key characteristics of the portfolio of manufacturing sectors in 1998 (see table 7.9) were very different from the North:

1) Electrical and optical equipment was the predominant sector in terms of output share (29%), and in terms of employment share (25%). In terms of average annual growth over the seven year period 1991–98, it experienced very high real growth of 18%.

2) Chemicals (including pharmaceuticals) and man-made fibres had the second largest output share (24%), but a much lower employment share (9%), characterizing it as having low productivity. This was also a very high growth sector (about 21% per year in real terms).

3) Food processing was the third largest sector in terms of output (21%), accounting for a similar proportion of employment, and with growth of about 3% per year in real terms.

Table 7.9 Sectoral portfolio in Southern manufacturing, 1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, drink and tobacco</td>
<td>10,381</td>
<td>21.4</td>
<td>7,807</td>
<td>4.2</td>
<td>47,113</td>
<td>19.5</td>
</tr>
<tr>
<td>Textiles, clothing and leather</td>
<td>777</td>
<td>1.6</td>
<td>808</td>
<td>-0.6</td>
<td>15,564</td>
<td>6.4</td>
</tr>
<tr>
<td>Electrical and optical equipment</td>
<td>13,831</td>
<td>28.6</td>
<td>3,848</td>
<td>20.1</td>
<td>60,127</td>
<td>24.8</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>749</td>
<td>1.5</td>
<td>406</td>
<td>9.1</td>
<td>7,464</td>
<td>3.1</td>
</tr>
<tr>
<td>Other machinery and equipment</td>
<td>1,196</td>
<td>2.5</td>
<td>732</td>
<td>7.3</td>
<td>14,668</td>
<td>6.1</td>
</tr>
<tr>
<td>Chemicals and man-made fibres</td>
<td>11,728</td>
<td>24.2</td>
<td>2,685</td>
<td>23.4</td>
<td>21,415</td>
<td>8.8</td>
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<tr>
<td>Rubber and plastics</td>
<td>855</td>
<td>1.8</td>
<td>515</td>
<td>7.5</td>
<td>10,476</td>
<td>4.3</td>
</tr>
<tr>
<td>Paper and printing</td>
<td>5,018</td>
<td>10.4</td>
<td>1,645</td>
<td>17.3</td>
<td>23,260</td>
<td>9.6</td>
</tr>
<tr>
<td>Other non-metallic mineral products</td>
<td>917</td>
<td>1.9</td>
<td>582</td>
<td>17.3</td>
<td>9,977</td>
<td>4.1</td>
</tr>
<tr>
<td>Basic metals and fabricated metal products</td>
<td>1,301</td>
<td>2.7</td>
<td>869</td>
<td>5.9</td>
<td>14,960</td>
<td>6.2</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>469</td>
<td>1.0</td>
<td>230</td>
<td>10.7</td>
<td>5,016</td>
<td>2.1</td>
</tr>
<tr>
<td>Other manufacturing n.e.s.</td>
<td>1,207</td>
<td>2.5</td>
<td>771</td>
<td>6.6</td>
<td>12,164</td>
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</tr>
<tr>
<td>Total</td>
<td>48,429</td>
<td>100.0</td>
<td>20,898</td>
<td>13.4</td>
<td>242,204</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: Average annual inflation rate of manufacturing output (1991-98) = 1.5%.

Source: Report on the census of production for Northern Ireland (Belfast: Northern Ireland Statistical Agency, various years); Census of industrial production (Dublin: Central Statistics Office, various years).
4) The only other sector with double digit output share was paper and printing (including publishing), with output and employment shares of 10%. This is also a very high growth sector (21% per year in real terms). Much of the output of the software sector is classified here, including computer manuals and CD-ROMS.

5) For all the other sectors, both output and employment shares are very small, in the range of 1-3% for output and 1-6% for employment, with real growth rates somewhat lower than the average of 11% per year.

In summary, by the end of the 1990s, at the time of the Belfast Agreement negotiations, both regional economies of the island of Ireland displayed manufacturing portfolios that were strongly concentrated. In the case of the North the two largest sectors were food processing plus textiles and clothing, both of which experienced very slow real growth and the latter appeared to be in terminal decline. There was also significant specialization in a high growth sector, electrical and optical equipment. In the case of the South the predominant specialization was in two rapid growth high technology sectors (electrical and optical goods plus chemicals and pharmaceuticals) and one traditional (but by the mid-1990s, quite capital intensive) slow-growth sector, food processing. This form of sectoral concentration was continued, and Table 3.10 shows the harmonized data published by InterTradeIreland for the year 2000.

7.5 Implications for North-South trade

A key relationship between the economies of the North and the South involves North-South trade. The ability to sell outside a regional economy requires the ability to produce a range of goods and services that are in demand elsewhere. The above characterisation of the Northern and Southern productive structures - with the South having a larger and more modern industrial base – has very important implications for intra-island trade, and we now turn to these issues.

Table 7.11 shows the shares of Southern exports by destination, as well as the shares of Southern imports by source for the extended period 1972-2009. This covers the period from direct rule in 1972, through the worst of the civil unrest, to the decade of ceasefires which culminated with the Belfast Agreement, and forward to the present.

Table 7.10: Industrial concentration by sector, South and North (2000)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Gross output share</th>
<th>Employment share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Republic of Ireland</td>
<td>Northern Ireland</td>
</tr>
<tr>
<td>Electrical and optical equipment</td>
<td>33.8</td>
<td>19.5</td>
</tr>
<tr>
<td>Chemicals and chemical products</td>
<td>26.3</td>
<td>4.4</td>
</tr>
<tr>
<td>Food, beverages, tobacco</td>
<td>17.2</td>
<td>29.6</td>
</tr>
<tr>
<td>Paper, paper products, publishing, printing</td>
<td>10.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Metal and metal products</td>
<td>2.2</td>
<td>4.9</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>1.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Machinery and equipment</td>
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<td>5.8</td>
</tr>
<tr>
<td>Non-metallic mineral products</td>
<td>1.6</td>
<td>4.2</td>
</tr>
<tr>
<td>Rubber and plastic products</td>
<td>1.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>1.2</td>
<td>8.4</td>
</tr>
<tr>
<td>Textiles, textile products, leather</td>
<td>0.9</td>
<td>7.6</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>0.9</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Note: columns report percentages by sector.

Source: North-south trade: a statistical ground-clearing exercise (Newey: InterTradeIreland, 2003; also available on http://www.intertradeireland.com/module.cfm opt=29 area=Publications page=Publications [2008-12-31])
Table 7.11: Southern export and import shares by destination and origin

<table>
<thead>
<tr>
<th>Year</th>
<th>Britain</th>
<th>North</th>
<th>OEU</th>
<th>ROW</th>
<th>Britain</th>
<th>North</th>
<th>OEU</th>
<th>ROW</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>50.5</td>
<td>10.3</td>
<td>16.8</td>
<td>22.3</td>
<td>47.3</td>
<td>3.7</td>
<td>17.5</td>
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<td>1973</td>
<td>45.2</td>
<td>9.5</td>
<td>21.3</td>
<td>24.0</td>
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<td>1974</td>
<td>46.7</td>
<td>9.2</td>
<td>18.2</td>
<td>25.9</td>
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<td>31.7</td>
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<td>1975</td>
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<td>23.9</td>
<td>44.1</td>
<td>4.1</td>
<td>19.9</td>
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<td>1978</td>
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<td>21.6</td>
<td>28.4</td>
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<td>24.7</td>
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<td>28.1</td>
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<td>21.8</td>
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<td>31.0</td>
<td>41.1</td>
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<td>31.4</td>
<td>39.1</td>
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<td>35.3</td>
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Source: CSO on-line database
Data for external sales shares for the North are shown in Figure 7.3. Unfortunately, data on Northern imports are not available since inter-regional trade data are not collected in the UK.

Figure 7.3: Northern Ireland: External sales by destination

What these data show is that exports from the South to the North account for a share of total Southern exports that has declined steadily from a high of just over 10 per cent in 1972 to a current value of only 1.5 per cent. However, exports from the North to the South account for over 10 per cent of total external Northern sales. In other words, the South is over six times more important as an export market for Northern firms than the North is as an export market for Southern firms. On the other hand, Britain is nearly three times as important a market for Northern firms than it is for Southern firms, which have increasingly become more oriented towards trade with the rest of the EU and the rest of the world. However, Britain remains much more important for the South as a source of imports than it is as a destination for Southern exports, i.e. the South ran a significant trade deficit with Britain, amounting to €440 million in 2009. On the other hand, the South runs a trade surplus with the North, which totalled about €340 million for the year 2009.

To explore the details of bilateral North-South trade, we can make use of the detailed trade statistics produced by the Irish Central Statistics Office. Table 7.12 shows Southern export shares to the North, to Britain and to the entire EU, disaggregated using the Standard Industrial Trade Classification (SITC), with specific details of some sub-divisions. The table highlights some striking facts. Exports from the South to the North are heavily concentrated in SITC 0 (Food and Live Animals) accounting for 24.5 per cent of total Southern exports to Northern Ireland. For the same product category, this compares with 17 per cent of total exports to Britain and only 11 per cent of total exports to the EU as a whole.

There is a very high concentration of Southern exports in categories SITC 7 (Machinery and Transport Equipment) to Britain and the EU as a whole, accounting for over a third in each, but only 12 per cent of total Southern SITC 7 exports to the North. More notably, for the important category of SITC 75 (Office and ADP machines), almost 25 per cent of Southern exports to Britain and to the EU fall into this category but less than 2 per cent of total exports to the North.

The situation for SITC 5 (Chemicals and related products) is also anomalous, but not quite as dramatic as the previous cases, with 24 per cent of total exports to EU in this category, 16 per cent to Britain, but only 9 per cent to the North. One should note a residual category ‘Other’ – which makes up 15 per cent of total Southern exports to the North; and is negligible to anywhere else. This category consists of goods whose trade volume is at too low a threshold to be accurately recorded, and almost certainly consists of traditional rather than high technology products.

Table 7.13 gives the corresponding data for shares of Southern import from the North, from Britain and from the EU as a whole. It is clear that Southern imports from the North are very heavily concentrated in SITC 0 (Food and live animals), accounting for 25 per cent of total imports, compared to 9 per cent from Britain and the EU. The importance of Southern imports from Britain and from the EU in SITC 7 (Machinery and Transport Equipment) is clear, with one third of the total from each but only 8 per cent from the North. In SITC 75 (Office and ADP machines) and SITC 77 (Instruments), Southern imports from the North have a very low share of the total of Northern imports. This pattern is repeated, though less dramatically, for SITC 5 (Chemicals). If one defines ‘traditional’ products as SITC sections 0, 6, 8 and ‘Other’, then about 73 per cent of total Southern imports from the North fall into this category. The corresponding figure for Southern imports from
Britain and from the EU are only 46.1 and 41 per cent respectively.

Thus, the composition of bilateral trade between North and South is very different from bilateral trade between Britain and the South, as well as between the EU as a whole and the South. North–South trade – both ways – is predominantly in traditional, low technology products with an exceptionally high weighting in SITC 0 (Food, Drink and Tobacco). Of course this finding simply reflects the underlying industrial structure in the North compared with the South. We showed previously that the two industrial structures are very different: the South having a concentration in modern high technology sectors, and the North specialising predominantly in more traditional sectors. However, the most important dynamic promoting increased intra-EU trade in the Single Market of the EU is associated inter-firm trade in similar product areas rather than trade in finished consumer goods. This two-way trade simply cannot easily take place between North and the South, given their contrasting production structures.

Table 7.12: Southern export shares by SITC sections

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Source: Trade Statistics, CSO.
Note: Totals of shares may not add to 100 due to rounding.

7.6 The future of North–South trade

With an improved political situation in the North, recent experience shows that the previous reluctance of individuals and groups to travel freely between both regions is declining. Greatly increased North–South tourist flows, and the availability and increased traffic on the upgraded road and rail services, bear testimony to this process of North–South development. However, there remain other important reasons for continued market segmentation related to such issues as the very different industrial structures, different fiscal and monetary/exchange rate regimes, the separate and parallel functioning of public sector development agencies like the IDA and Enterprise Ireland in the South and the corresponding development organisations in the North (mainly Invest Northern Ireland), with their obvious implications for higher business transaction costs when working in both markets.

Since the establishment of the North/South trade and business development body InterTradeIreland...
under the Belfast Agreement, some progress has being made in addressing the problem of market segmentation on the island. Trade literature in the South and the North is now targeted at disseminating information on marketing opportunities in both jurisdictions. Joint promotions of Irish products overseas have been organised, and strategic alliances are being encouraged between Northern and Southern firms. The distribution system on the island, which had in the past tended to deal with the North as part of the UK and with the South as a completely separate region, is gradually being integrated on an island-wide basis. In the longer term, the continued upgrading of strategic transport links on an integrated all-island basis is likely to be another powerful force for removing North-South market segmentation.

However, the potential gains in the future from greater North-South trade interaction, given existing Northern and Southern industrial specialisations, may be modest relative to the potential gains from greater penetration into wider world markets, including British markets. Nevertheless, there are gains to be made from intra-island trade in circumstances that will assist in strengthening the competitive performance of all businesses on this island. North-South trade improvement on this island is not an alternative to East-West trade improvement, but is entirely complementary to it. It is a transitional process that will produce gains in the short term and, by strengthening its supply side, will help to position the island economy to make further advances in world markets. North-South trade will reach its potential if and only if the structure of manufacturing in both regions of the island can evolve in a way that makes them more compatible and a source of increased inter-firm trade and not – as at present – trade in mainly consumer goods. It is necessary, at this stage, to look closer at the sub-regional economies of North and South, and we turn to these in the next chapter.
Chapter 8: Stranded? The border region economy

8.1 Introduction

We now turn to the regional economies of the South and the sub-regional economies of the North. This difference in terminology (‘regional’ versus ‘sub-regional’) is not merely a pedantic distinction, but has important implications for the manner in which we can inquire into the cross-border area that is the main focus of our research. In the case of the South, the border area is separately identified as one of the eight economic planning areas of the national economy. So the regional data in the South are just one level down from the comprehensive national economic data, and the Southern CSO takes the provision and open publication of regional data very seriously. In the case of the North, the border area is not explicitly identified in any official UK or Northern economic publications. Rather, it has to be constructed from a range of confusing and overlapping sub-regional divisions of the North, namely NUTS 3 regions, 26 District Council areas, education board areas, etc. Furthermore, the resulting Northern sub-regional data is at least two levels down from the comprehensive national UK economic data.

Our objective in this chapter is to describe the characteristics of the cross-border region, and to examine the ways in which this region may differ from other regions of the island economy. Here, we are very heavily constrained by the availability of published data. For example, while it was possible to obtain sectoral data for the Northern economy as a whole at the one-digit SIC level, and for Northern manufacturing at the two-digit SIC level, it is not yet possible to obtain these data for any of the Northern sub-regions. Nor is it possible to obtain associated data of the kind that is freely published by the CSO in the South in, for example, their annual Census of Industrial Production. Indeed, the futile saga of our quest for UK regional, as well as Northern sub-regional data, was the most disappointing aspect of our research project.

For the eight planning regions of the South and even at the level of individual 26 Southern counties, a wide range of useful economic data are available. Using these data we can construct a reasonably clear portrait of the production structure of the Southern planning regions and – in particular – of the Southern side of the cross-border region. In addition, a range of other data are available on the income and expenditure sides of the Southern regional economies, which give further insight into how policy operates to reduce any adverse consequences of regional productive imbalances (e.g., through automatic and discretionary transfers).

Even when we have fairly good data on the Southern regions, our examination is still in terms of economic aggregates and sectors of enterprise and not in terms of individual firms. Using published data, for example, examination of the local manufacturing base can only be carried out in a somewhat abstract and aggregate way. But at least this is a start in a process that will eventually permit us to get right up close to this important sector and to look at the world from the point of view of individual firms trying to operate in the cross-border region and not from the point of view of sectoral averages that combine many heterogeneous firms. Our present sectoral investigation can be seen as an initial reconnaissance that will be deepened later in Chapter 10 when we describe the results of our visits to a carefully selected, representative sample of firms in the cross-border region.

We first examine in Section 8.2 the regional economies of the South, drawing on available Southern official data sources. Ideally, the examination of the Northern sub-regional economies would be carried out in tandem with the Southern regions, using a common set of economic indicators and a fairly standard set of spatial disaggregation. But since that is not yet possible, we considered it...

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91 When designing the research project upon which this report is based, we were unaware of the difficulties that would arise in our efforts to obtain what we regarded as fairly basic sub-regional data for the North. We return to these difficulties below.

92 At the one-digit SIC level, the entire Northern economy is divided into 15 subsectors. At the two-digit SIC level, it is possible to disaggregate manufacturing (say) into at least a further 14 sub-sectors.

93 Even in the Southern CSO’s Census of Industrial Production, issues of confidentiality arise at the four digit NACE level of sectoral disaggregation. However, the question of ‘disclosure’ of confidential data does not interfere with the publication of a wide range of regional data at a somewhat aggregated level.
best to examine the Southern regions separately from
the Northern sub-regions. It is also important to stress
that there is a wealth of regional and sub-regional
social and spatial data available for the South and for
the North. While acknowledging that the economy is
not everything, nevertheless we wish to focus in this
project mainly on economic and business data since
others have worked on the spatial and social data in
the context of social policy and spatial planning. So
we confine our analysis to issues related to economic
and business structure and performance, and we
work mainly at the level of the eight Southern
regional planning areas, plus some treatment
of individual counties. These issues of regional
economic structure have been examined far less than
the social and spatial planning aspects.  

In Section 8.3 we turn to the case of the Northern
sub-regional economies. Here the data difficulties
are extremely challenging, and are made even
more difficult by a confusing institutional situation
with respect to responsibilities for preparing
Northern regional and sub-regional data and an
even more confusing approach by the UK-based
Office of National Statistical (ONS) to the release
such data into the public domain for the purposes
of academic research. Nevertheless, drawing on the
very limited set of sub-regional data to which we
were given access, a certain amount can be said
about the performance of the Northern sub-regional
economies, and about the Northern border region in
particular.

To the limited extent permitted by the available
Northern sub-regional data, in Section 8.4 we focus
on the economy of the border region, which consists
of Northern and Southern components. It should be
stressed that we talk of a ‘cross-border’ regional
economy in much the same way as we talked of
the economy of the South as part of the economy of
these islands. In other words, we do so in a strictly
economic context, simply to see if the two sides of
the border share any common structural features
and experience any common problems. In the course
of our examination we make the assumption that
the present policy framework will continue and
that present governance arrangements will remain
unchanged. Our goal is to try to identify any features
that are specific to the border region, North and
South, and whether this special region behaves in a
different fashion from regional and sub-regions that
are not close to the border. Once again, we stress
that our main focus is on economic structure and
performance.

8.2 The regional economies of the South

8.2.1 Regional characteristics

Irish economic development during the period of
dynamic growth of the 1990s attracted considerable
attention internationally, in particular the role played
by foreign direct investment (FDI). After a slow but
promising start due to the reforms of the 1960s and
a build-up during the 1970s, and then a slow-down
during a period of global recession and domestic
fiscal instability during the 1980s, the foreign sector
in Ireland began to expand very rapidly during
the 1990s and now accounts for about one half of
Southern manufacturing employment and over two-
thirds of gross manufacturing output. The economic
success enjoyed by the South and its convergence
within not much more than a decade after 1985 from
two-thirds of the EU average level of GDP per capita
to a position higher than the average, is due almost
entirely to the dynamic role of the foreign sector
and the manner in which other parts of the local
domestic economy managed to link to and feed off
that growth.  

Directly as well as indirectly, the foreign-owned
manufacturing sector now affects every corner of
the economy and the South is a textbook case study
of the benign effects on a small host economy of
export-oriented FDI. Indeed the attention given to
the phenomenal success of foreign manufacturing
served to mask a parallel sustained resurgence of
the performance of indigenous industry, the causes
of which were associated both with its sub-supply
linkages to foreign firms and to more general
FDI-induced improvements in the wider domestic
competitive environment (see O’Malley, 1998).

The story of resurgence of the Southern economy
during the 1990s cannot be told in simple mono-
causal terms, even if the subsequent property-related

94 The main exception is the series of seven Regional Competitiveness Agendas (RCAs) published by Forfas, which give analysis of the
underlying structures of seven Southern planning regions (Forfas, 2009). There is no separate document for Dublin.
95 We stress that GDP per head can be a misleading indicator of welfare, and will return to this issue later.
boom and bust of the current decade can. The timing of the growth acceleration of the late 1980s was expected, even if its strength and duration were not. There were many reasons why an improvement in performance was long overdue and likely to happen. At the top of the list comes the extreme openness of the economy, a factor that encompasses large inflows of FDI, sizeable labour migration flows, an export orientation towards fast growing markets and products, together with the benefits arising from early participation in the European Monetary System (EMS), resulting in the break in 1979 in the psychologically important and constraining link with sterling, the completion of the Single European Market after 1992, and full participation in Economic and Monetary Union (EMU) leading eventually to adoption of the euro from January 1st 2002.

Although much is known about Southern manufacturing at the aggregate or national level, rather less is known about the nature, causes, consequences and prospects of the spatial distribution of manufacturing throughout the regions of the South and its knock-on impacts on wider regional performance. The shift in 2000 from designating the whole country as Objective 1 (i.e., a country whose entire economy was lagging within the EU) to a regionalised approach to EU Structural Fund aid meant that regional development mechanisms began to attract increased and more systematic attention than they had in the past.

In the South, as in all other countries, economic activity is not spread evenly over space. However this does not automatically imply that there exist distinct economic regions. Furthermore, where distinct economic regions may exist, these may not correspond to the existing administrative regions that are used for the purposes of data collection. The traditional Southern administrative units are the counties. For domestic planning purposes, these have been grouped into eight Planning Regions (equivalent to NUTS III regions using the EU nomenclature) which are administered by Regional Authorities since 1994.\textsuperscript{96} For EU Structural Funds purposes Ireland was originally seen as one (NUTS II) region. However, starting in 2000, it was decided to split the country into two NUTS II regions: the Border, Midlands and West (BMW) region made up one, less developed NUTS II region, and the other five Planning Regions (Dublin, Mid East, South East, South West and Mid West) constitute the other, more developed NUTS II region.\textsuperscript{97} These administrative regions and counties are the units for which data are collected, but they have their origins in history and most of them have no distinctive modern economic significance. However, since many variables are not available at the sub-county level, we are obliged to limit our analysis to the counties and planning regions. Table 8.1 displays the main socio-economic characteristics of the eight Planning Regions.

The CSO regional estimates of Gross Value Added (GVA) per capita provide a measure of regional output or productivity. There are substantial differences between the regions with respect to GVA per capita. The Dublin region stands out from the other regions with a GVA of 40% higher than the average. The South West is the only other region with above average GVA. In contrast, the Border, Midlands and the West regions have substantially lower than average GVA, with the remaining regions having moderately below average GVA.

Although there is a significant difference between the Midlands (65.8% of the national average) and Dublin (141%) regions, this does not properly reflect differences in incomes of people living and working there, since output is measured in the region in which it is produced rather than where the benefits accrue as income. A large number of individuals commute to work from the Mid East to the Dublin region thereby contributing to the output in the Dublin region. For this reason the two regions should probably be viewed as one, with the resulting GVA still substantially above average.

A further caveat is that these GVA figures are susceptible to distortions due to transfer pricing/profit shifting by foreign multinationals as a consequence of the favourable national tax regime in Ireland. It is therefore not surprising that the two regions with the highest GVA also have a high concentration of foreign firms. Unemployment

\textsuperscript{96} The Planning Regions are defined as: Border (Donegal, Sligo, Leitrim, Cavan, Monaghan and Louth), Dublin (Dublin, Dun Laoghaire-Rathdown, Fingal and South Dublin), Mid East (Meath, Kildare and Wicklow), Midlands (Longford, Westmeath, Offaly and Laois), Mid West (Clare, Limerick and Tipperary NR), South East (Carlow, Kilkenny, Tipperary SR., Wexford and Waterford), South West (Kerry and Cork) and West (Mayo, Roscommon and Galway).

\textsuperscript{97} This more developed NUTS 2 region is sometimes referred to as the South and East region.
is highest in the South East region (15.7%) and somewhat below average in the Dublin, Mid East, South West and West regions.

In terms of population, Dublin is distinct in that it contains almost 30% of the South’s population while all of the other regions (with one exception) contain between 8.5% and 11% of the population. The exception with regard to population is the Midlands region which only contains 6% of the national population. This comparison however does not reflect the relative size in terms of land area of the regions. The population density accounts for the size of the regions and using this measure three groups of regions can be identified. Dublin has by far the highest population density; the second group with an intermediate density of 40 to 57 persons per square kilometre consists of the Mid East, South East, South West, Midlands and Mid West; and the Border and the West regions have low densities of 33 and 25 persons per square kilometre. The final column in Table 8.1 shows the degree of urbanisation as measured by the population living in settlements of more than 10,000 inhabitants. The Border, the Midlands and the West regions are clearly the least urbanised and these also have the lowest GVA per capita. This link between urban development and productivity is reflected by a strong positive correlation between the degree of urbanisation and GVA.\footnote{Excluding the Dublin region, the correlation coefficient between the index of per capita GVA and urbanisation is 0.94. Furthermore there is strong evidence for the presence of scale effects since, when one redefines the degree of urbanisation to include the population of towns of over 1500 inhabitants, this correlation declines to only 0.78.}

In Table 8.2 we show the regional distribution of GVA of agriculture, industry and service activities. Agriculture, forestry and fishing are of relatively small importance nationally, with manufacturing, building and construction and services accounting for 97% of national GVA. However, the sectors are not of equal importance in all regions, with the substantial regional variation reflecting differences in industrial structure. Thus manufacturing is the most important sector in the South West region. Manufacturing accounts for a much smaller than average share of GVA in the Dublin region where services are particularly important, reflecting the fact that it contains the national capital. Services are least important in the South West region.

One of the purposes of a national government is to redistribute income from the more prosperous to the less prosperous regions. In Table 8.3 we show the impacts of these redistribution policies, where the large disparity in GVA per head (a production-based measure) is greatly attenuated in terms of personal disposable income per head. In addition, the ranking of the regions changes. Thus, while the Midlands region has an index of about 66 of GVA per head

Table 8.1: Main characteristics of the South regional economies

<table>
<thead>
<tr>
<th>Region</th>
<th>Index of GVA per person (State=100) 2007</th>
<th>Population (‘000s) 2007</th>
<th>Pop. density (pers. per km²)</th>
<th>Unemployment rate (2009, Q4)</th>
<th>Persons at work (‘000s)</th>
<th>Degree of urbanisation (% in settlements &gt; 10,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Border</td>
<td>70.1</td>
<td>481 (11.1%)</td>
<td>39</td>
<td>13.3</td>
<td>220 (10.5%)</td>
<td>20.9</td>
</tr>
<tr>
<td>Dublin</td>
<td>141.2</td>
<td>1210 (27.9%)</td>
<td>1295</td>
<td>10.8</td>
<td>617 (29.3%)</td>
<td>93.6</td>
</tr>
<tr>
<td>Mid East</td>
<td>78.0</td>
<td>497 (11.4%)</td>
<td>79</td>
<td>11.4</td>
<td>249 (11.8%)</td>
<td>29.9</td>
</tr>
<tr>
<td>Midlands</td>
<td>65.8</td>
<td>260 (6.0%)</td>
<td>39</td>
<td>14.4</td>
<td>121 (5.8%)</td>
<td>18.4</td>
</tr>
<tr>
<td>Mid West</td>
<td>84.6</td>
<td>365 (8.4%)</td>
<td>46</td>
<td>14.2</td>
<td>173 (8.2%)</td>
<td>30.5</td>
</tr>
<tr>
<td>South East</td>
<td>73.4</td>
<td>474 (10.9%)</td>
<td>50</td>
<td>15.7</td>
<td>220 (10.5%)</td>
<td>27.8</td>
</tr>
<tr>
<td>South West</td>
<td>123.5</td>
<td>632 (14.6%)</td>
<td>51</td>
<td>11.4</td>
<td>303 (14.4%)</td>
<td>38.7</td>
</tr>
<tr>
<td>West</td>
<td>70.6</td>
<td>419 (9.7%)</td>
<td>30</td>
<td>12.5</td>
<td>198 (9.4%)</td>
<td>16.6</td>
</tr>
<tr>
<td>State</td>
<td>100</td>
<td>4339 (100%)</td>
<td>62</td>
<td>12.4</td>
<td>2102 (100%)</td>
<td>46.7</td>
</tr>
</tbody>
</table>

The index of personal disposable income per head is over 92. The GVA per head indices range from a low of 65.8 (Midlands) to a high of 141.2 (Dublin). However, the index of personal disposable income per head ranges much more narrowly from 92.3 (Midlands) to 109 (Dublin).

Ideally, we would like to have an index of GVA per head at the level of individual counties in order to examine the role of income distribution at the county level as well as at the regional level. But such data are not published. In Table 8.4 we substitute an index of net output per person engaged in manufacturing, which acts as a proxy for county-level productivity. This index varies through a very wide range, from lows of about 20 (in Donegal, Leitrim and Cavan) to a high of 140 (in Louth), reflecting the fact that of the Border counties only Louth could be said to have a significant and modern manufacturing base. Once again, the index of personal disposable income by county varies over a much narrower range: from a low of 85 for Donegal to a high of 100 for Sligo.

Table 8.4: GVA and Personal Disposable Income (2007) per head
Border Region – by County

<table>
<thead>
<tr>
<th>Region</th>
<th>Index of NO per person engaged (manufacturing) (State = 100)</th>
<th>Index of PDI per head (State = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Border</td>
<td>56.5</td>
<td>93.7</td>
</tr>
<tr>
<td>Donegal</td>
<td>22.3</td>
<td>84.8</td>
</tr>
<tr>
<td>Sligo</td>
<td>42.4</td>
<td>100.3</td>
</tr>
<tr>
<td>Leitrim</td>
<td>26.9</td>
<td>93.4</td>
</tr>
<tr>
<td>Cavan</td>
<td>26.1</td>
<td>96.3</td>
</tr>
<tr>
<td>Monaghan</td>
<td>26.0</td>
<td>94.8</td>
</tr>
<tr>
<td>Louth</td>
<td>139.8</td>
<td>99.7</td>
</tr>
<tr>
<td>State</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Based on CSO Quarterly Household Budget Survey, 2007 (average annual disposable income) and CIP (2006).

Using data for these existing regions, it appears that there are significant differences between them and that one might conclude that these regions are distinct economies. However, as already mentioned in the context of the Dublin and Mid East regions, the proper definition of economic-regional boundaries is complex due to extreme openness of such small areas and the high level of commuting between them. Thus the commuting patterns suggest that Dublin, Mid East plus Louth might be characterised as forming a single functional economic region (Greater Dublin) as defined by a travel to work area or local labour market. By ‘functional region’ we mean one which is homogenous with regard to particular characteristics (especially socio-economic characteristics), which is

Table 8.3: GVA (2007) and Personal Disposable Income (2007) by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Index of GVA per head (State = 100)</th>
<th>Index of PDI per head (State = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Border</td>
<td>70.1</td>
<td>93.7</td>
</tr>
<tr>
<td>Dublin</td>
<td>141.2</td>
<td>109</td>
</tr>
<tr>
<td>Mid East</td>
<td>78.0</td>
<td>101.9</td>
</tr>
<tr>
<td>Midlands</td>
<td>65.8</td>
<td>92.3</td>
</tr>
<tr>
<td>Mid West</td>
<td>84.6</td>
<td>98.7</td>
</tr>
<tr>
<td>South East</td>
<td>73.4</td>
<td>96.8</td>
</tr>
<tr>
<td>South West</td>
<td>123.5</td>
<td>96.5</td>
</tr>
<tr>
<td>West</td>
<td>70.6</td>
<td>93.9</td>
</tr>
<tr>
<td>State</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Based on CSO Quarterly Household Budget Survey, 2007 (average annual disposable income)

(relative to the state at 100), its index of personal disposable income per head is over 92. The GVA per head indices range from a low of 65.8 (Midlands) to a high of 141.2 (Dublin). However, the index of personal disposable income per head ranges much more narrowly from 92.3 (Midlands) to 109 (Dublin).
territorially contiguous, where much of the activities and inter-relationships occur within the boundaries of the region, and which possesses a central focal point, usually a dominant city or large town around which the region is organised.99 This functional concept of a region contrasts sharply with one that merely defines a region by an often arbitrary administrative boundary.

While the Dublin or Mid East regions separately do not make up a functional region, the Greater Dublin region defined above is obviously a functional region on the basis of travel to work. It is also questionable whether the existing regional boundaries for the remainder of the country define functional regions. However, defining these is difficult, particularly since it draws on data on the destination of commuters. Nevertheless potential travel-to-work areas can be identified through travel time calculations and these have been produced for selected centres (see Fitzgerald et. al. 1999, p.118-119). Of course, other economic variables need also be taken into account when defining functional economic regions.

### 8.2.2 Determinants of dispersal of manufacturing to South regions

Present day industrial strategy in the South could be broadly characterised as a process whereby national and regional agencies (originally the Industrial Development Authority, but now including Enterprise Ireland and the Industrial Development Agency), using a wide range of incentives, bid for sub-contracting roles from mainly global multinational firms, and only then attempt to influence the allocation of these activities across the regions in order to satisfy conflicting mixtures of economic, social and political criteria. In the late 1980s a first comprehensive strategic framework was developed within which the sources of national and regional competitive advantage could be placed – the so-called Porter ‘diamond’ (Porter, 1990). Industrial strategy in the South anticipated many aspects of the Porter framework, but it is useful to use that framework as an initial way to describe aspects of how the strategy played out over the South’s regions and how it has led to the present sectoral structure of the regions.100

Porter asked how a nation or region could seek to achieve international success in any particular industry or in groups of industries. As we discussed in Chapter 5 (Section 5.4), Porter’s answers identified four broad attributes (the competitiveness ‘diamond’) that he believed shaped the environment in which firms compete: factor conditions; demand conditions; related and supporting industries; and firm strategy, structure, and rivalry. Porter’s main contribution to deepening understanding of national and regional competitive advantage lay in the emphasis he placed on the interactions between these four attributes and the detailed study of successful nations, regions and industries that illustrate these interactions at work. In the early 1990s, Southern policy makers turned to Porter’s treatment of competitive advantage, a body of work that has been extremely influential in the subsequent formulations of national and regional industrial strategies such as the Culliton Report (1992) and more recent updates.

The Southern economy is only relevant to strategic planning of US-based firms as a profitable location for production of products (and increasingly, services) mainly designed and developed elsewhere, and a location where an educated labour force as well as adequate infrastructure are available at reasonable cost. Until recently the branch plant nature of foreign firms located in the South tended not to encourage the building of strong national or regional performance on the lines of the Porter ‘diamond’. It is well known that dependence purely on external investment makes it difficult to generate cumulative self-sustaining growth. Nevertheless, the branch plants of the multinationals that located in the South, even in the very early stages of development, could not in general have been characterised by ‘footloose’ behaviour (McAleese and Counahan, 1979). Although they initially developed only limited linkages with the rest of the economy (O’Malley, 1989, pp. 177-181), they displayed a long-term commitment to the country because of the fiscal and other advantages offered. Linkages came over time, even if they lacked

99 This definition of a region encompasses a wider range of socio-economic variables rather than merely the commuting pattern. This is important since the urban system is not well developed in some parts of the country and consequently only low levels of commuting occur. Nevertheless, the commuting pattern would be a critical variable for the identification of a functional region using our definition wherever substantial numbers of workers commute.

100 For a more detailed account of Southern industrial strategy, see Bradley (2001). Later advances made by Best (1990 and 2001) prove more useful when examining individual firms in their decision-making context.
the depth of the strong inter-firm linkages that characterised iconic clusters such as Silicon Valley and the Emilia Romagna region of northern Italy (Best, 2001).

In the previous section we outlined some broad socio-economic variables for the South’s planning regions. The geographic variation regarding these variables is the result of both market forces and policy over a long period of time. In general when one examines how national and regional economies have developed over time and over space, there are three characteristic features:

i. Economic activity tends not to be spread uniformly over space or over sectors, but tends to cluster or concentrate;

ii. Such clustering is clear evidence of some kind of increasing returns (i.e. doubling inputs more than doubles outputs) and this should be exploited by policy makers;

iii. ‘Growth centres’ in specific locations (usually around cities of above a certain size) will tend to interact with each other over space to form corridors, or elongated growth centres.

As a description of the dynamics of growth, the above points have wide application. The first element simply describes the physical realities of the cities, towns, villages and less populated hinterlands to be found in any country or region. The second element provides an economic explanation for why clustering occurs, and has been a very active area of research in industrial economics over the past decade (i.e., the ‘new’ growth and trade theories). The third element is a logical consequence of the first two and merely describes the interaction of two or more contiguous growth poles as their areas of influence begin to overlap.

The debate on growth centres versus dispersal first flourished in the South during the early to mid 1960s, a time when major strategic policy changes were being implemented, culminating with the commissioning of the UN-financed Buchanan Report in 1966. After extensive review of past performance and analysis of options, Buchanan proposed a new policy orientation that embodied the growth centre idea, namely that 75 per cent of new industrial employment over a twenty year period should be concentrated into a limited number of urban areas (Figure 8.1). In particular, the development of two national growth centres in Cork and Limerick would enable them to attain a sufficient size to compete effectively with Dublin. Six additional regional growth centres and four local centres were to receive preferential treatment.

Buchanan’s proposals generated a vigorous and often acrimonious debate. The government was reluctant to implement them, opting essentially for a continuation of the previous policy of dispersal. The formal rejection of the policy of concentration was eventually embodied in the first five-year plan of the Industrial Development Authority (IDA), published in 1972, and formal growth centre policy was quietly dropped in favour of a pragmatic approach that tried to reconcile the apparently conflicting aims of the efficiency of growth poles and the equity of dispersal.

A major economic argument against the promotion of growth poles made by the IDA was that improvements in transport and communications – even in the 1960s – had greatly increased the locational flexibility of industry, and that this was reflected in the ability of the weaker regions, outside the proposed Buchanan growth centres, to attract and support foreign direct investment. IDA policy was formulated in terms of systematic regional dispersal, accompanied by a comprehensive programme of fully serviced industrial sites and advance factories and greater locational variability in grants. That policy continues, with necessary modifications, to the present day.

To the extent that IDA policy was indeed targeted at a redistribution of manufacturing employment more evenly throughout the country, it was quite successful. We have seen that the less advantaged regions were not entirely excluded from the benefits of industrial development, even if the major population centres attracted the most advanced firms who needed to be located close to third level educational establishments. Today it would be preferable to include a wide range of private support services along with manufacturing, since some of the distinctions between these sectors have vanished as a result of the ‘hiving off’ or ‘unbundling’ of services that were previously classified within manufacturing.
However, modern manufacturing needs sophisticated support services, so these activities tend to be co-located.

The relatively equitable regional outcome that emerged might suggest that concentration was not necessary to ensure both strong national and regional growth. However, a different, less benign interpretation can be made based on specific features of the Southern experience of foreign direct investment, which was the main source of all post-1960 industrial growth. The early foreign-owned industries locating in the South were originally, and largely remained, branch plants that seldom became involved in the core stages of product design and development, these activities remaining with the foreign parent company. Rather, they were involved initially in relatively routine assembly and manufacturing processes, often at the standardised (or mature) stage of the product cycle. Later, of course, firms using more complex manufacturing processes located in the South, of which Intel is an example. However, branch plants are better than no plants. All nations start by importing their technology, and the most common way to do this is to encourage foreign direct investment and to train the labour force in the servicing of this investment, simultaneously working to try to increase the level of indigenous competence.

It is difficult to make an absolutely convincing case that the policy of dispersion of multinational branch plants definitely did impede the development of synergies between foreign and indigenous firms. With a few notable exceptions, the Southern industrial strategy was to attract firms in areas where there were economies of scale at the ‘industry’ level, but not at the ‘plant’ level.\footnote{For example, the minimum efficient size of a steel mill or a motor manufacturing plant would be much too big for the Irish economy. In such industries, the economies of scale are at the level of the plant. However, a plant engaged in the computer or pharmaceutical sector can be quite efficient even with a few hundred employees, since economies of scale are at the level of the wider industry.}

However, there are many direct and indirect indications that what synergies did come about were at best weak. For example, although industrial output and exports grew rapidly in the key areas where foreign-owned multinational firms dominated (e.g., chemicals, pharmaceuticals, computers, instrument engineering), the employment response was initially slower both in these key sectors themselves and in the industrial and service sectors that would be expected to benefit from synergies (NESC, 1997). Furthermore, IDA work on targeting foreign-indigenous synergies [e.g. the National Linkage Programme] was designed to strengthen what are admitted to be weak linkages. Although there were big gains in manufacturing employment during the 1990s, even bigger gains were registered in service sectors that both supplied producers (producer services) and eventually supplied the consumer demand spillovers (consumer services).

Geographic dispersion to the Southern regions was obviously not the only issue at the root of the problem of weak foreign-indigenous synergies. In addition, the gulf that existed between the new high technology foreign-owned firms and existing largely traditional indigenous industries was probably too large to bridge satisfactorily during the early decades of the export-led growth strategy. However, although the inter-firm synergies may have been weak, there were obvious direct benefits to the national...
and regional economies in terms of conventional income multiplier effects. A further important benefit came through human capital and labour market externalities, as the expansion of the Southern education system after the mid-1960s interacted with the demand of the foreign sector for an increasingly skilled labour force. After four decades of large-scale inward investment, the position in the South was transformed. Ireland eventually succeeded in attracting sufficient firms in the computer, instrument engineering, pharmaceutical and chemical sectors to merit a description of sectoral ‘agglomerations’ or ‘clusters’.

8.2.3 An overview of the regional characteristics of Southern manufacturing

In our examination of the regional and sub-regional characteristics of manufacturing, we restrict ourselves to a review of characteristics apparent in the most recent complete Census of Industrial Production data for the year 2006. Initially we examine the sectoral distribution of manufacturing across the eight main Planning Regions in terms of numbers of plants. We then examine the Planning Regions and their constituent counties in more detail, in each case making use of the following set of stylised facts:

i. The number of local units (or plants) gives a rough idea of the density of manufacturing activity in any area.

ii. The ratio of industrial to administrative/technical workers is a proxy measure for the complexity of the regional industrial base (a high ratio indicates a more traditional type of manufacturing process).

iii. Gross output, net output and employees per local unit indicate average size of plants.

iv. Average wages per employee/per industrial worker is another measure of process sophistication.

v. Net output per employee is a measure of average regional productivity, but can be seriously distorted by transfer pricing.

vi. Finally, the wage bill expressed as a share of net output gives a measure of the profitability of the regional manufacturing base.

Of particular interest will be to identify regions and counties where the characteristics of the local manufacturing base are unfavourable (e.g., traditional activities, less skilled jobs, low pay, low technology, etc.).

Manufacturing in the main regions

Table 8.5 presents a disaggregation of industrial activity as classified using the NACE system, showing the number of plants in the state and the regions. The distribution of plant numbers for most regions is broadly similar to that of the state. However some differences are noticeable. A striking feature is the extremely small number of manufacturing plants in the Midlands region. Furthermore, some differences regarding the sectoral distribution can be identified. For instance, the Paper and Publishing sector is particularly important in Dublin, which is not surprising since this industry is strongly linked to the services sector which is particularly important in Dublin. The same sector is of much lower importance in the Border and South East regions. The sectors which are of high importance relative to that of the state as a whole are Fabricated Metal Products and Electrical and Optical Equipment in the Mid West region, Food and Drink in the South East and South West regions, Textiles in the Border and Wood Products in the Midlands. Overall the Border, Midlands and South East regions have few plants in the more high tech sectors such as Chemicals and Electrical and Optical Equipment, while these are particularly important in Dublin and the Mid West.

At present the Irish agglomerations and clusters are of a rather weak variety and are quite unlike the dynamic clusters in regions like Baden-Wurttemberg in Germany, Silicon Valley and Route 128 in the US, and the M4 Corridor in the UK. Nevertheless, the levels of skills involved are being constantly upgraded and Ireland has become an attractive location for certain high technology activities simply because of the presence of other similar industries, with their labour market externalities.
Table 8.6 gives details of manufacturing characteristics which were described above. Not surprisingly, Dublin has the lowest ratio of industrial to administrative workers, reflecting the large number of headquarters located in that region. Conversely the Border and Midlands region, and to a lesser extend the South East and West regions, have a high ratio of industrial to administrative workers, an indication of the greater importance of branch plants in these regions.

There are large differences between the regions with regard to gross output per local unit, with the highest (South West) being nearly six times as high as the lowest (Midlands). The West region also has low gross output and a similar picture emerges for net output. Most of the regions have very similar average number of employees per local unit. However, the Mid West is the exception, with a significantly higher than average number of workers per unit.

The average wage per employee is lowest in the Border, Midlands, South East and West regions and highest in the Dublin region, with a similar picture emerging for average wages of industrial workers, which are lower than those for administrative workers. There is a massive gap between net output per employee in the Midlands region and that in South West region, once again caused by the dominance of the Chemical and Pharmaceutical sector in the South West. Finally, the percentage of net output which is accounted for by the wage bill is lowest in the South West (6%) and highest in the Midlands (40%), pointing to the traditional nature of Midlands manufacturing.

Table 8.5: Regional distribution of plants by main NACE sector

<table>
<thead>
<tr>
<th>NACE Code</th>
<th>Border</th>
<th>Dublin</th>
<th>Mid East</th>
<th>Midlands</th>
<th>Mid West</th>
<th>South East</th>
<th>South West</th>
<th>West</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 – 16</td>
<td>(19%)</td>
<td>(10.8%)</td>
<td>(17.9%)</td>
<td>(18.3%)</td>
<td>(15.0%)</td>
<td>(25.4%)</td>
<td>(22.6%)</td>
<td>(17.3%)</td>
<td>(17.3%)</td>
</tr>
<tr>
<td>(Food &amp; Drink)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 – 18</td>
<td>(12.1%)</td>
<td>(9.5%)</td>
<td>(5.5%)</td>
<td>(4.5%)</td>
<td>(4.9%)</td>
<td>(6.8%)</td>
<td>(8.9%)</td>
<td>(7.7%)</td>
<td></td>
</tr>
<tr>
<td>(Textiles)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>(6.5%)</td>
<td>(2.2%)</td>
<td>(4.4%)</td>
<td>(9.7%)</td>
<td>(3.5%)</td>
<td>(5.6%)</td>
<td>(3.4%)</td>
<td>(6.9%)</td>
<td>(4.5%)</td>
</tr>
<tr>
<td>(Wood)</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21 – 22</td>
<td>(5.4%)</td>
<td>(22.9%)</td>
<td>(8.6%)</td>
<td>(7.8%)</td>
<td>(7.3%)</td>
<td>(5.8%)</td>
<td>(7.5%)</td>
<td>(8.4%)</td>
<td>(11.2%)</td>
</tr>
<tr>
<td>(Paper, publish.)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>(3.2%)</td>
<td>(6.0%)</td>
<td>(6.4%)</td>
<td>(2.2%)</td>
<td>(4.5%)</td>
<td>(4.4%)</td>
<td>(6.1%)</td>
<td>(4.0%)</td>
<td>(4.9%)</td>
</tr>
<tr>
<td>(Chemicals, etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>(5.6%)</td>
<td>(4.4%)</td>
<td>(6.2%)</td>
<td>(7.5%)</td>
<td>(5.4%)</td>
<td>(8.2%)</td>
<td>(6.0%)</td>
<td>(5.9%)</td>
<td>(5.9%)</td>
</tr>
<tr>
<td>[non-met-min]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27 – 28</td>
<td>(8.7%)</td>
<td>(10.1%)</td>
<td>(9.7%)</td>
<td>(13.8%)</td>
<td>(15.7%)</td>
<td>(13.6%)</td>
<td>(11.0%)</td>
<td>(11.1%)</td>
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<td>(Fabricated Metal Products.)</td>
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<td>29</td>
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<td>(8.6%)</td>
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<td>(8.9%)</td>
<td>(10.3%)</td>
<td>(6.9%)</td>
<td>(7.4%)</td>
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<td>(Mach &amp; equip.)</td>
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<tr>
<td>30 – 33</td>
<td>(5.4%)</td>
<td>(11.4%)</td>
<td>(7.3%)</td>
<td>(6.3%)</td>
<td>(16.7%)</td>
<td>(3.8%)</td>
<td>(8.4%)</td>
<td>(10.9%)</td>
<td>(8.9%)</td>
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<tr>
<td>(Elect. &amp; opt. Equip.)</td>
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<tr>
<td>All Industries</td>
<td>692</td>
<td>1191</td>
<td>542</td>
<td>334</td>
<td>460</td>
<td>620</td>
<td>748</td>
<td>471</td>
<td>5082</td>
</tr>
</tbody>
</table>

Source: CIP 2006

103 The South West region is the main location of the Chemical and Pharmaceutical sector, based near Cork city. We have already seen that this sector has very specific properties.
8.3 The sub-regional economies of the North

We turn now to the sub-regional economies of the North. With respect to the structure of the sub-regions of Northern Ireland, we were only able to access the publicly available data on shares of GVA disaggregated into six broad production sectors, and available for five NUTS-3 sub-regions. In Figure 8.2 we show the sub-regions in question, where we also indicate how the larger NUTS-3 sub-regions are effectively made up of groups of the 26 NI District Councils.

Table 8.7 shows GVA shares of the total Northern economy, with a headline indicating that the North contributes just over 2% of total UK GVA. The Belfast City NUTS-3 region is seen to dominate, making up about 30% of the Northern total. The other four shares are remarkably stable over time, with the two NUTS-3 regions that contain the border (i.e. the North and the West & South regions) making up about one-third of the NI total. However, these NUTS-3 sub-regions are not aligned with respect to the border. Rather, they radiate out from Belfast and present data in segments that mix border and internal regions.

A further breakdown of the NUTS-3 GVA data can be made into six broad production sectors, and this is presented in Table 8.8. Some patterns are obvious. For example, the Belfast City sub-region has little by way of agriculture, a relatively modest production sector share (i.e. manufacturing and utilities), but by far the biggest Business Services and Financial sector (37% of sub-regional GVA, compared with 20% in Outer Belfast, and a low of just under 12% in the West and South-West sub-region). Production is

Table 8.6: Manufacturing characteristics by Planning Region

<table>
<thead>
<tr>
<th>Planning Region</th>
<th>Border</th>
<th>Dublin</th>
<th>Mid East</th>
<th>Midlands</th>
<th>Mid West</th>
<th>South East</th>
<th>South West</th>
<th>West</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Units (nos.)</td>
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<td>1191</td>
<td>542</td>
<td>334</td>
<td>460</td>
<td>620</td>
<td>748</td>
<td>471</td>
<td>5082</td>
</tr>
<tr>
<td>Industry/Admin employ. Ratio</td>
<td>3.93</td>
<td>1.88</td>
<td>2.58</td>
<td>3.62</td>
<td>2.78</td>
<td>3.32</td>
<td>2.61</td>
<td>3.19</td>
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</tr>
<tr>
<td>GO/ local unit (£000)</td>
<td>11,721</td>
<td>23,809</td>
<td>17,660</td>
<td>7,383</td>
<td>36,370</td>
<td>12,214</td>
<td>43,426</td>
<td>12,293</td>
<td>22,634</td>
</tr>
<tr>
<td>NO/ local unit (£000)</td>
<td>6,208</td>
<td>16,831</td>
<td>11,308</td>
<td>3,132</td>
<td>8,207</td>
<td>6,092</td>
<td>31,285</td>
<td>7,762</td>
<td>13,431</td>
</tr>
<tr>
<td>Employees/local unit (nos.)</td>
<td>38</td>
<td>40</td>
<td>50</td>
<td>39</td>
<td>57</td>
<td>45</td>
<td>49</td>
<td>53</td>
<td>47</td>
</tr>
<tr>
<td>Avg. wage/ employee (£pa)</td>
<td>29,882</td>
<td>41,565</td>
<td>36,249</td>
<td>32,638</td>
<td>39,517</td>
<td>33,695</td>
<td>38,716</td>
<td>32,158</td>
<td>37,572</td>
</tr>
<tr>
<td>Avg. wages/ industrial worker (£pa)</td>
<td>25,314</td>
<td>33,444</td>
<td>29,191</td>
<td>28,745</td>
<td>33,032</td>
<td>29,369</td>
<td>32,576</td>
<td>26,945</td>
<td>31,171</td>
</tr>
<tr>
<td>NO/ employee (£000)</td>
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<td>421,714</td>
<td>224,774</td>
<td>80,348</td>
<td>143,465</td>
<td>136,346</td>
<td>632,311</td>
<td>147,327</td>
<td>286,942</td>
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<tr>
<td>Wage bill/NO (%)</td>
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<td>9.8</td>
<td>16.0</td>
<td>40.2</td>
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<td>24.5</td>
<td>6.1</td>
<td>21.6</td>
<td>13.0</td>
</tr>
</tbody>
</table>

Source: CIP 2006.

Figure 8.2: The NUTS-3 sub-regions of NI

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104 Work on Northern sub-regional research is made very difficult due to the absence of much relevant data from the Office of National Statistics (ONS) or local sources. However, pending developments in this area by the Northern statistical agencies, we are forced to work with what we have.

105 We made attempts to obtain data at the District Council level, and – in an effort to pre-empt problems with what the ONS refer to as ‘disclosive’ information – we sought to group the District Councils into sub-regions that were more appropriate for identification of the border region. These efforts did not succeed.
concentrated in two of the NUTS-3 sub-regions: in the East (26%) and in the West/South-West (24%). Unfortunately, there is little more that can be said in the absence of the kind of disaggregated CIP data that are available for the Southern regions and counties.

8.3.1 Post-1960 Northern sub-regional policy

Policy on sub-regional development and industrial location within the North was relatively weak and passive from the immediate post-war period until the mid-1960s, tending to accommodate development in the north-east sub-region. As late as 1962 the Hall report on the economy of the North devoted little attention to regional imbalances or to the active use of public policy to redress these imbalances, even in light of the serious unemployment in areas west of the Bann, such as Derry, Enniskillen and Strabane, and in Newry and Dungannon to the south of Belfast (Hall, 1962).

However, the Belfast Regional Survey and Plan (the Matthew Report) was the first of a series of reports that began to focus on sub-regional imbalances (Matthew, 1963). Unlike the South, where physical planning tended to follow behind economic planning, economic plans for the North up to the mid-1970s accepted the essentials of the physical strategy as put forward in the Matthew Report. In Figure 8.3 we illustrate the ‘growth’ and ‘key’ centers as designated by Matthew, where the concentration on the eastern sub-region is apparent.

Table 8.7: Sub-regional economies of NI – NUTS-3 shares of GVA

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<tbody>
<tr>
<td>NI share of total UK GVA</td>
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<td>2.21</td>
<td>2.22</td>
<td>2.24</td>
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<td>2.24</td>
<td>2.25</td>
<td>2.24</td>
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<td>29.0</td>
<td>29.0</td>
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<td>27.9</td>
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<td>16.7</td>
<td>16.7</td>
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<td>17.0</td>
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<td>[4] North of NI</td>
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<td>[5] West and South of NI</td>
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<td>17.5</td>
<td>17.8</td>
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Table 8.8: Sub-regional economies of NI – NUTS-3 shares of GVA in broad sectors

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<td>Distribution, transport and communication</td>
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The Wilson Report of 1963 on economic development in the North further promoted the concept of growth centers, and worked on the assumption that successful regional development would be accompanied by internal migration: people moving to jobs, rather than jobs moving to people. However, correcting a previous anomaly, Derry was designated as a growth center.

A major change in regional policy was heralded by the Quigley Report of 1976. An acknowledgement of the segmentation of Northern labour markets and the relatively low rate of internal migration led the review team to the conclusion that:

*It is simply a fact that no regional policy (whatever its success in promoting investment or raising GDP or reducing unemployment) will be judged satisfactory which fails to remove the unemployment black spots* (Quigley, 1976, p.17).

From the mid-1970s, it could be said that regional policies in both North and South eschewed any narrow focus on growth centers and became a pragmatic blend of concentration and dispersal that attempted to bring spatial equity to the island, with as little loss of economic efficiency as possible. Indeed, Southern research indicated that the failure rate of firms in the underdeveloped regions and smaller towns had been no higher than in the large urban areas, and firm formation rates appear to have been reasonably evenly spread over all Southern regions. This suggests that the policy of branch plant dispersal did not entail a large sacrifice in terms of employment (Brunt, 1988).

A final aspect of the Northern sub-regional policy debate concerns its implications for, and impact on, the spatial distribution of government sponsored employment in relation to the religious composition of the population. Contrasting with the scattered nature of the Catholic majority areas, the non-Catholic community formed, and continues to form, a reasonably solid contiguous group in the east-central region of the North. Consequently, any economic policy that facilitated further concentration on the east-central region, either passively or actively, could not avoid the relative neglect of the large areas with Catholic majorities. Figure 8.4 shows manufacturing ‘location’ ratios for the entire period 1949–1981, together with two sub-periods: the passive policy period 1949–63, and the active policy period, 1964–81.

Although there is no overall difference for the entire period, there is a marked difference between the two sub-periods, with Catholic majority areas faring better during the later ‘active’ policy period than during the earlier ‘passive’ period. One is left to speculate that had the situation been reversed, and had the relatively deprived areas with Catholic majorities benefited more in both employment and housing during the first period rather than the second, then perhaps at least some of the underlying causes of the outbreak of civil unrest in the late 1960s might have been alleviated.
Our brief examination of the previous and the present stance of industrial policy, both North and South, suggests that the normal processes of clustering and regional concentration eventually were impeded both by the branch plant nature of the investment and by a public policy of geographical dispersal. The only example of an Irish self-sustaining ‘industrial district’, i.e. Belfast during the period from the mid-19th century to the early decades of the 20th century, declined thereafter. More recent policy has deliberately promoted regional dispersal, almost certainly at some expense to strict economic efficiency criteria.

However, after more than four decades of exposure to foreign direct investment, the South has succeeded in attracting sufficient firms in the computer, instrument engineering, pharmaceutical and chemical sectors to merit a description of sectoral ‘agglomerations’ or ‘clusters’. The incentives used in the South to attract and hold these firms were tax breaks, grants and a well-educated and trained work-force. With the exception of tax-based incentives, similar policies were used in the North to attract inward investment, albeit in a climate dominated by negative factors associated with the ‘troubles’.

The successful clusters or agglomerations in certain Southern industrial sectors obviously attracted the interest of Northern policy makers and encouraged them to explore ways in which these Southern processes could be broadened to include the North, having regard to the nature, needs and characteristics of these sectors. This raises a host of policy and industrial organization issues that go to the core of any quest for island-wide synergies and we take them up in later chapters.

8.4 The cross-border regional economy: a SWOT

In our earlier discussion about functional regions we highlighted the fact that the existing regions may not constitute distinct economies in any formal sense. However, sub-regional data needs to be interpreted with caution since, due to the relatively small number of manufacturing plants in some counties, individual firms can substantially distort the overall figures for an individual county.

For the Southern part of the border region, designated as such in the Southern official statistics, the region shows up as traditional on average, but has a very high degree of internal heterogeneity as between the six constituent counties. For example, the manufacturing base in Louth, at the eastern end of the border region, is considerably more modern on average than in Donegal, at the north-western end. Louth has the lowest ratio of industrial to administrative workers, plants are largest in terms of output measures (but not in terms of size), wages are highest and, significantly, the wage bill as a fraction of net output is very low, always a sign of either high capital intensity or of advanced technology. In Donegal, on the other hand, these characteristics are reversed: Donegal has the highest ratio of industrial to administrative workers of all the Irish sub-regions (5.53, with a region average of 3.93 and a state average of 2.60). This suggests that the location of Dundalk on the densely populated east coast near Dublin, with excellent transport connections to Dublin and furthermore located on the so-called Belfast–Dublin corridor, has attracted modern industry to the area, and that Donegal suffers from its extreme peripherality.

Similar characteristics to the Border are shared by the Midlands region, which displays more traditional manufacturing characteristics than the state average, with small plants, low wages and low productivity. However, no sub-region stands out within the Midlands region since there is no large urban centre about which clusters could form. These characteristics are also shared by the West region. Here, however, there is a rather complex degree of heterogeneity. Galway appears to have the most modern manufacturing on the basis of technology, wage levels and productivity. Roscommon is considerably more traditional, with the second highest ratio of industrial to administrative workers. Mayo is in an intermediate situation, with a small number of very modern plants distorting profitability, but with many of the traditional characteristics of Roscommon.

The final group of regions (Mid West, South East and South West) are characterised by intermediate levels of urbanisation. In the case of the Mid West, counties Clare and Limerick display many of the characteristics of modernity, with Limerick in particular being better than the state average for most of the eight comparable measures. On the two remaining measures (ratio of industrial to administrative workers and the wage share
of net output), Limerick is almost identical to the state average. Within the Mid West region, Tipperary North Riding displays the most traditional characteristics.

In the adjoining South East region, the mix of characteristics between the sub-regions is more varied, with no single region dominating the picture. Thus, Tipperary South Riding has the largest plants and the highest profit share of net output, but has low average wage rates. Carlow, Kilkenny, Waterford, and Wexford all have many traditional characteristics with the exception of above average wage rates in Waterford. Finally, the South West region, centred on Cork city, displays a dramatic dichotomy between the modernity of Cork – with its cluster of chemical and pharmaceutical plants - and the traditional structure of Kerry.

Our examination of the constituent sub-regions (mainly counties) of the eight Southern planning regions points to a high degree of internal heterogeneity which further suggests that these do not form functional regions. Within a Planning Region there can be dramatic differences in the structure of manufacturing. Perhaps the greatest contrasts occur between Louth and Donegal (within the relatively poor Border region), and between Cork and Kerry (within the relatively prosperous South West region). The role of urbanisation shows through as a crucial factor in determining the modernity of a region’s or sub-region’s manufacturing capacity. Leaving aside the anomalous case of Dublin, other examples include Galway (in the West), Cork (in the South West), and Louth (in the Border). In the case of the Mid East, proximity to the Dublin conurbation appears to influence two of the sub-regions (Kildare and Wicklow), but not Meath.

Ideally, we would like to be in a position to carry out a similar sub-regional analysis for NI, if the data access hurdle could be overcome. Once this is achieved, it will be possible to obtain an overall picture of the cross-border region as an integrated micro economy. Indeed, the only logical way to seek to overcome the manifest disadvantages of (say) the Donegal sub-region of the border area would be to consider it as part of the economic hinterland of the city of Derry, since Donegal already shares many of the structural economic characteristics of the north-west sub-region of Northern Ireland.

We were reluctant at first to adopt the SWOT approach to pulling together the insights obtained from the previous three sections. Too often SWOT degenerates into an undiscriminating list of unrelated and often contradictory factors that fail to align with the original, underlying purpose of the SWOT technique. Consequently, it is important to go back to the meaning of SWOT and to stress that its core assumption is that the internal positive and negative attributes of a business organization (or, in our case, a regional economy) can be distinguished from factors that characterise its external environment. The internal analysis serves to pinpoint the strengths and weaknesses. The external analysis serves to identify strategic opportunities and threats. Implicit in the SWOT framework is that the business organization (or region) has at least some ability to influence its internal performance, but has little or no power over the nature and behaviour of its external environment.

Ideally, we would be able to construct formal economic models of the cross-border regions and use such models to examine how the regional economy performs, the main factors – internal and external – that drive its performance, and the kinds of policies that could improve lagging performance. However, the small size of the Irish regions, and the general lack of any locally devolved policy-making autonomy of any significance, means that formal economic modelling is neither appropriate nor possible. In order to bring together the insights of the previous three sections, we are obliged to use the qualitative SWOT approach rather than a quantitative modelling approach.

This analysis is structured along the lines of SWOT, where we take each element separately, starting with the strategic issues: threats (Section 8.4.1) and opportunities (Section 8.4.2); and then examining the internal strengths (Section 8.4.3) and weaknesses (Section 8.4.4). Our concluding section reviews the
somewhat unequal balance between external and internal factors that is probably to be expected in an economy as small as that of the Irish cross-border region.

8.4.1 Threats to the cross-border economy

The first threat to the cross-border region comes from the fact that the regions play only a weak part in determining spatial policy. Here there is a definite asymmetry between the different situations of the Southern and Northern parts of the border. In the South much attention is given to the detailed analysis of the state’s constituent regional economies, even if the main elements of spatial and industrial strategy are driven mainly from the centre (Dublin). The two main development agencies – the IDA and Enterprise Ireland – tend to operate closely with regional agencies and local groups, and act as the focal point for policy implementation in the regions. The situation in the North appears to be very different. The main development department in government, DETI, has tended to ‘out-source’ regional strategy to the 26 Northern District Councils and other local enterprise groups, who in turn often operate in isolation from each other and without any guiding province-wide strategic framework.

The second threat comes from the problematic way in which specific regional development needs are taken into account, and is associated with the weak policy role as it operates in the regions. The cross-border region is exceptionally disadvantaged here, and only in some very special cases can the added complexity of having two jurisdictions be alleviated. For example, the case of the ‘Twin City’ initiative between Newry and Dundalk has managed to build on the special situation of these two population centres that straddle the border. However, other less advantaged areas of the border region have not managed to create a similar critical mass of cross-border synergy. And even in the Newry-Dundalk area the problems created by disjointed cross-border policy making are difficult to overcome.

A third threat comes from the fact that the Irish cross-border region does not exist in a vacuum. Other cross-border regions throughout Europe are benefiting from EU market integration, the euro zone of currency stability and the Schengen free travel area. Consequently, any inability to address the development problems of the Irish cross-border region will not only cause that region to fall behind other regions on the island, but will also result in it falling behind other more dynamic EU cross-border regions that have managed to put in place institutions and policies that maximise the benefits of cross-border trade and investment.

Although the availability of targeted funding is not necessarily the only factor that is essential for cross-border development, nevertheless funding – and particularly long-term funding – is important. Here, the border region faces another external threat, in that for the South the period of large-scale EU Structural Fund support is now coming to an end and only modest transitional aid remains. In the North, the EU Peace programme funding is also coming to an end, and other sources of finance – which played an important part in promoting community reconciliation during the period of civil unrest – are also drying up. Furthermore, there has always been an unwillingness to ‘mainstream’ the finance devoted to the border area, and unlike the main elements of EU Structural Funds which have been replaced by domestic funding, the ‘special’ cross-border funding may not be replaced.107

Associated with the threat of a cut-off in special, targeted funding for the cross-border region is the wider threat of the consequences of the fiscal crisis in the South, and the likely fiscal adjustments that are being forced on the UK. Our analysis of the border region showed that it is more heavily dependent on publicly funded income support than other more prosperous regions of the island. Governments who are faced with the challenge of severe fiscal adjustments tend to re-evaluate their approach to the equity-efficiency trade-off. When times are good, there is a willingness to lean towards greater equity, and assist regions and groups who have only benefitted to a lesser extent. When the public finances become more constrained, there is a drive for greater efficiency and resources tend to go where the return is greatest, and many previously supported services in less advantaged

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107 Of course the ability to ‘replace’ EU Structural Funds by domestic finance is predicated on the South’s public finances being in a stable and healthy position. The recent fiscal crisis in the South resulted in the abandonment of many elements of the ambitious, domestically financed National Development Plan.
regions are cut. This is currently creating difficulties in the cross-border region. But the fiscal crisis is so severe that the problem is likely to extend into the medium term.

The fiscal crisis in the UK and the South is not the only aspect of public policy that creates threats for the border region. The currency fault line between the euro and sterling is well known to have created the phenomenon of cross-border shopping. Perhaps there is a tendency to dismiss this as a kind of ‘zero sum’ threat: this year the Northern part of the border benefits because sterling is weak against the euro; next year the Southern part of the border benefits because sterling has strengthened against the euro. In the long run there seems to be no permanent damage. However, there are long-term costs. Currency instability caused by fluctuating exchange rates tends to prevent the growth of a deep and stable consumer market of goods and services that requires entrepreneurs to invest in facilities, stock, product innovation and staff training simply because the viability of an enterprise could be wiped out overnight due to currency fluctuations. The businesses that survive are those that focus almost exclusively on the mass consumer market of goods that are seldom produced locally, but are shipped into the border region for onward sale to consumers from whatever region happened to be ‘enjoying’ a strong currency, to the loss of retail outlets in their own region.

8.4.2 Opportunities available to the cross-border economy

Probably the greatest opportunity presented to the border region is to derive maximum benefit from the improved North–South communication infrastructure that has been put in place to support increased cross-border traffic. The decay of North–South communication infrastructure in the decades after partition had many explanations, none of them very creditable to both sets of policy-makers. The actual destruction of such infrastructure – e.g. blocking local cross-border roads – further served to isolate the cross-border communities from each other, and from other regions of the island. But the present North–South motorways, and the faster rail service, make travel physically easier and more reliable. This new infrastructure offers the prospect of making the border region a busier place, and the challenge offered will be to capture new business. The obvious way to do this will be to build links between the economy of the border region and the more developed regions of the island in order to maximise beneficial spillovers in terms of commuting, sub-supply, branch plants, tourism, etc.

A closely related opportunity will be created if the devolved government in the North and the government of the South come to regard the border as an invitation to engage in closer business and economic interchanges, and not as a barrier to such interchanges. Any remaining impediments associated with the border are likely to be more subtle than the actual physical barriers of the past. The challenge will be to recognise such barriers, and to act for their removal.

Specifically, the cross-border bodies set up under the Belfast Agreement offer opportunities to address problems that would be more difficult if they had to be tackled by higher levels of government. After over a decade of operation, it should now be possible to evaluate the performance of these bodies, and to seek to put in place modified or even new bodies that would address the challenges that the decade of peace has pushed to the fore. After all, these cross-border bodies were set up at a tense time of political negotiation, and were minimalist, in the sense of being the very least that would be acceptable to both communities and both governments, rather than the very best that was required. The opportunity to revisit these mainly economic and business functions should not be regarded as a ‘constitutional’ issue. Rather, it should be treated as a routine and necessary process of adjustment in light of past experience and emerging needs.

We have already identified the threat to the Irish border region that is posed by emerging dynamic regions elsewhere in the EU, and particularly in the new (post-2004) member states. But the gradual evolution of EU regional policy presents a new opportunity for the Irish border region that may assist it in meeting this challenge. Regions are

108 The second research topic of the project will examine consumer markets in the border region from the wider perspective of the desirability of creating ‘deeper’ markets in the region that draw on goods and services produced locally, integrate consumer behaviour on both sides of the border, permit specialisation, and have a reasonable prospect of stability.
emerging as a new focal point in the negotiations that are currently taking place on the shape of the regional aid package for the next EU budget programming period, 2014-2020. We saw earlier that the division of the South into two sub-regions (the curiously named BMW region that continued to have Objective 1 status during 2000-2006, and now has transitional status; and the E&S region, that lost its Objective 1 status in 2000, had transitional status during 2000-2006, and now receives no Structural Fund aid). Compared to the lagging states that joined the EU in 2004 and 2007, there is no question but that both the South and the North are prosperous economies. The opportunity from the next round of EU regional aid will not come in the form of blanket assistance of the kind that the South enjoyed between 1989 and 2000. Rather, it will come in the form of carefully targeted regional and sub-regional assistance, perhaps in association with other similar EU regions.

Another possible opportunity would be to manage the border-related policy fault line better, in the following sense. We have noted the disruptions to retail trade that are caused by significant fluctuations between sterling and the euro. Since it seems almost certain that the UK government will remain outside the euro zone, then the currency issue has to be regarded as a permanent feature of cross-border life. However, it may be possible to design cross-border enterprise co-operation in a way that arbitrages across the currency and other policy-induced fault lines: for example, enterprises based close to the border, with joint South-North management, who have dual purpose plants that are flexible enough to seek out profitable opportunities as the policy-related fluctuations occur. Such joint ventures would demand a high degree of trust, but they are not entirely unrealistic.

8.4.3 Internal weaknesses of the cross-border economy

Turning now to internal matters, the first and most obvious weakness of the cross-border region is the very concept of ‘peripherality’. Of course, there is nothing that policy makers or entrepreneurs in (say) Donegal can do about the physical distance from Dublin, or people in Derry or Newry can do about their more modest distance from Belfast! When we identify ‘peripherality’ as an internal weakness, we are not talking about physical distance. Rather we mean ‘psychological’ distance. There is a strong tendency for regional actors to complain of neglect by the metropolitan centres. A better approach would be to try to look at the cross-border region from a national perspective (Dublin or Belfast), and to work out how purely regional goals might be better attained in a manner that simultaneously conveys national benefits, as well as benefits for other disadvantaged regions. However, this is very difficult to achieve in practice, particularly in the North, where the regional development system has been devolved/privatised to the 26 District Councils, and these are often so small, and so pre-occupied with onerous, local routine work, that they are unable to think in this strategic way. So ‘psychological’ peripherality remains an internal weakness.

The next serious weakness of the cross-border region is the low population density and the low rate of urbanisation. This has many knock-on consequences, many of which emerged in our earlier analysis. For example, it is difficult to locate manufacturing enterprises of any size in small towns without creating the risk of the ‘one plant town’ problem, i.e. the town becomes totally dependent on the single enterprise and if it fails, it may drag the rest of the town’s economy down with it.100

Another weakness of the border area is the limited number of third level education establishments that can produce the kinds of graduates with technical and business skills that are in demand in the local business environment. In this respect, the approach of the South has been more flexible and innovative than that of the North. There are a total of fourteen Institutes of Technology in the South, which were created from the late 1960s and were formerly known as Regional Technical Colleges (RTCs) (see Table 8.9). The OECD-financed report, Investment in Education (1965), and the report Training of...
Technicians in Ireland (1964) launched education reform and development particularly in technical education, bringing it into line with other Western countries at the time. Three of these institutes are in the general border area: Dundalk, Sligo and Letterkenny. The institutes’ traditional courses were National Certificate and National Diploma type courses, particularly in science, engineering and business. During the late 1970s primary degrees were introduced, and later Master and Doctoral levels. In recent years there has been a rapid expansion in apprenticeship and nursing type courses.

Another weakness of the border region is its economic structure. For example, we found that the border economy was characterized by declining, traditional sectors of manufacturing, a high reliance on agriculture, and a lack of the kind of market services that are required to sustain a modern manufacturing base. Hence, since there are only a limited number of opportunities for employment in high technology sectors, many of the local graduates of the Institutes of Technology and of mainstream universities leave the region and seek employment elsewhere.

In regions as relatively small as the border area, skills in strategic development planning are always in short supply. Here we refer to economic planning (not spatial planning), which is a mainstream activity of local councils. On the Southern side of the border region there is close involvement of the local offices of the national development agencies (the IDA and Enterprise Ireland), who work with, and assist, local development groups in drawing up development strategies. An example this working well has been the Louth Economic Forum Foreign Direct Investment Strategy, where the national and local development agencies combined their expertise to draw up a regional implementation plan that was focused on the Louth area. However, there are few such examples. In the North the preferred approach appears to be to outsource such work, often to private consultancy firms, and close engagement between the state development agencies and local actors is rare.

At a much more fundamental level, our research showed how little sub-regional data was publicly available, and the fact that what data were collected were not processed locally within the North. This is a step backward from the data situation of past decades, where the detailed results of the Northern equivalent of the Southern Census of Industrial Production were processed and published locally, before they were passed on to the British-based HMSO (now the ONS, based in Cardiff). The lack of such basic economic data makes it very difficult to get an accurate ‘fix’ on the structure and performance of the sub-regional economy in the North. The data situation is somewhat better in the South, and it is possible to examine the underlying structure of even the county-level economies. The resulting lack of knowledge of the border region is a serious weakness, and it is unfortunate that the political will to improve data provision/publication within the North is lacking, even when such data are actually gathered and could be published without violating disclosure rules.

### Table 8.9: Southern Institutes of Technology

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<td>Dundalk Institute of Technology</td>
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<td>1970</td>
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<tr>
<td>Dún Laoghaire Institute of Art, Design and Technology</td>
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<td>Waterford Institute of Technology</td>
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8.4.4 Internal strengths of the cross-border economy

The border region is not without any strengths. For example there are cases where joint North-South work has succeeded in synthesising the
development potential of the border region as a whole, rather than focusing on one side of the border, as in the Forfas RCA work on the southern border region (Forfas, 2009). The location of Newry and Dundalk close beside each other straddling the eastern end of the border region was an obvious test case, and the various studies have served to build a compelling case for even closer synchronising of development strategies.

Another internal strength is the potential for continuing and deepening co-operation between the local authorities on either side of the border. Prior to the Belfast Agreement, such co-operation was very limited, and even today it retains a symbolic element that does not always translate into joint activities to address the consequences of the policy and administrative fault line of the border. However the March 2011 Memorandum of Understanding between Newry and Mourne and Louth Local Authorities to work together on a range of issues including tourism, emergency planning and renewable energy was an example of how a solid beginning can be made in this area.

Another potential strength lies in the cross-border bodies set up under the Belfast Agreement. Although the remit of these bodies is set by national government, and can only be changed by joint national agreement, nevertheless it should not be impossible for them to respond to greater engagement and initiatives emanating from the border region itself, and for these pressures to register with the national authorities. If the remits of the cross-border bodies are frozen and immutable, then they do not represent a strength to the border region. But if they can evolve and change, then they could become a strength.

8.4.5 Summary and conclusions on SWOT

Our analysis at this stage is pessimistic in that the border region is seen to face more threats, and to suffer more internal structural and organisational weaknesses than it enjoys by way of opportunities and internal strengths. In part this is caused by the tendency to look on the border region as a very special historical, political and social case, and one where longer term development strategy always seems to be trumped by short-term crisis management.

On the Southern side of the border, and more generally in the Southern regions, spatial strategy is merely subjected to the normal political push and pull that abounds in a political system characterised by clientelism. But a separate space has been created where detailed spatial analysis can be carried out in a scientific fashion, and attempts can be made to reconcile the top-down national development strategies with the bottom-up desire of regional authorities and local communities to have a greater say in determining their own destiny.

However, the position on the Northern side of the border appears to be rather different. There seems to exist little by way of a separate space within which Northern sub-regional analysis can be carried out in a neutral and scientific way. The Northern development agencies, such as Invest Northern Ireland and its parent government department, Department of Enterprise Trade and Investment (DETI), seem either unwilling or unable to act in a strategic co-ordinating role alongside local development bodies in the manner that the IDA and Enterprise Ireland acts in the South. This is not just an administrative failure. It is also a strategic failure, since it prevents the evolution of the vital interconnections between the national and local agencies and communities that are at the core of regional development process. One is forced to conclude that spatial analysis is ‘contested’ ground in the North, and the inability of the political parties to rub along together ultimately ends up in inefficient and sub-optimal regional development.

This is a particularly opportune time for to study the Irish border region using micro-economic, business and consumer research perspectives. This is because small entrepreneurial enterprises, upon which the future development of the region will largely depend, now have the prospect of an improved socio-political environment induced by peace and devolution and hopefully an improving economic and business environment within which they can try to overcome the challenges to be faced during the gradual recovery from the island-wide and global recession. The strategic objective of such work is to

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111 Forfas published in 2009 a series of seven studies of Regional Competitiveness Agendas (RCAs), using the standard Southern planning areas.
seek out and examine ways in which the politically neutral and mutually beneficial world of commerce, embracing producers and consumers, might generate significant returns in the border region when accompanied by innovative analysis and mutually beneficial cooperation and collaboration.

The specific research on the economy of the cross-border region to be described in Part III of this report (Inside the Border Economy) is made up of three separate but closely interrelated “topics”. The first topic focuses on the border region viewed as an area where consumer behaviour has been, and continues to be, both isolated and distorted, and which must now seek out ways of becoming a genuine single market in much the same way as the EU Single Market initiative of 1992 transformed the wider European scene. Cross-border shopping is perhaps the most dramatic aspect of consumer behaviour, and certainly affects the economy of the border region, albeit in different ways, North and South. But a more important aspect is the disruption that the border causes to the evolution of local consumer market linkages on both sides of the border. The most serious aspect of this is a phenomenon that we will refer to as the ‘missing hinterland’ problem, i.e. the truncation of the natural market reach of a town caused by its proximity to the border.

The second topic mainly examines producer behaviour in a way that is relevant to the specific features of the cross-border region. Given the well known characteristics of the region – small towns, mainly rural, with a very low population density – this requires special attention to the small and micro-firm levels, where self-employment and small firm activity in the production of goods and services tend to be more dominant than in more centrally located regions with their large, urban-based population agglomerations. Of particular interest is the extent to which such activities can sometimes draw inspiration and support from the special characteristics and circumstances of the border region, i.e. a relatively pristine environment, lack of congestion, and improving transport and communication links to external markets. Of course, it also requires us to explore links between larger firms, both indigenous and multinational, and smaller local firms, even in cases where the larger firms may lie outside the strictly defined cross-border region.112

In the third and final topic we examine tourism, which is an area that has had extensive resources devoted to it in the context of a new ‘island’ focus, but perhaps less so in the narrower context of the cross-border region.

112 The border region defined in the project excludes Belfast and Dublin, and only includes three towns of any significant size: Derry/Londonderry (population 90,000), Newry (population 30,000) and Dundalk (population 35,000).
Part III Inside the Border Economy
Chapter 9: The cross-border shopping phenomenon

9.1 Introduction

The first element of any study of a regional consumer market consists in gathering information on the structure and performance of the retail distribution sector, where goods are sold to consumers who either live in the region, or perhaps in very close proximity to it, or who travel various distances from other regions in order to purchase goods. Also of interest are the ancillary consumption of services in other branches of the region’s market service sector, such as hotels and restaurants and other personal services (e.g., medical, financial, entertainment, etc.). If there are no shops, there can be no shopping. If there are no service providers, there can be no purchases of services. In other words, what we might call ‘supply conditions’ in a consumer market are an important determinant of the level of consumer activities in a region.

The second element of study in a regional consumer market consists in the exploration of the determinants of the level of consumer activities that take place there. This focuses on ‘demand’ conditions in consumer markets. At a very basic level, internal demand for consumer goods and services in a region will be related to the population of that region as well as to the average level of disposable income in the region. But we have seen that the pattern of income distribution in all of the regions of the island of Ireland is much more even than – say – the pattern of spatial distribution of output (or GVA). The automatic fiscal distribution system, both in the South and the North, ensures that some income is transferred from GVA-rich regions to GVA-poor regions, through the social welfare system and through other distributional mechanisms. The resulting pattern of regional household income is a primary driving force of regional consumption. In view of the relatively equitable distribution of average per capita household disposable income in Irish regions, the regional population will be the primary driving force of intra-regional consumption.

Regional consumer markets are ‘open’, in the sense that there are now very few restrictions on where consumers can make purchases, other than economic restrictions associated with the costs of travelling large distances. But consumers in one region will have an incentive to travel to another region only when there are benefits from doing so. These mainly arise from differences in relative regional prices that compensate for the extra travel costs involved, where included in the ‘travel’ costs are both the explicit transport costs and implicit costs associated with the extra time taken. But inter-regional shopping can also arise due to differences in consumer market supply conditions in regions. For example, large urban centres of population are likely to have a wider range of consumer outlets, particularly specialist outlets, than sparsely populated rural regions. Also, regions in one country may, initially at least, have goods and services on sale that are not as easily available in regions of another country.

Over the past three decades the existence of the Irish border has given rise to some dramatic episodes of increased cross-border activity due to sharp fluctuations in relative prices of goods and services that do not exist to the same extent between – say – internal regions of the South or North. Ideally, and to the extent that resources would permit, specific field work and selected interviews would be needed in order to examine the current state of this phenomenon, targeted on issues and individuals of particular relevance. These would need to be directed at a range of interesting and relevant questions, such as:

i. How much cross-border shopping really goes on; who shops; and what are the triggers and detailed drivers of this aspect of consumer behaviour?

ii. How does the cross-border region benefit or lose from disruptive consumer behaviour?

iii. Are cross-border prices artificially distorted using hidden or opaque currency exchange transactions and excessive margins?

iv. If prices were more transparent [e.g. displayed in both currencies and with twin tills] and other barriers were removed, how would cross-border shopping be affected?

v. Since fluctuating currencies are known to play an important role in driving cross-border shopping, what is the feasibility of the
suggestion by local bank managers to ‘pilot’ a zone in the Dundalk–Newry area where the two currencies would be interchangeable?

vi. Are opportunities being missed by not seeking out and implementing co-operative ways of attracting and assisting cross-border shoppers (e.g. focus and specialisation to address problems caused by low population density)?

vii. Are the products of local micro-business being adequately advertised to the consumers in the region?

viii. How do retailers in the cross-border region relate to their wholesale suppliers?

Our project did not have the resources to mount a detailed, survey-based examination of these kinds of questions. However, there have been a series of relevant, in-depth studies carried out over past three decades, both by research institutes like the ESRI and by the national statistics agencies like the Central Statistics Office in Dublin and the General Consumer Council of Northern Ireland. These reports were usually motivated and commissioned for a variety of reasons at times when the level of cross-border shopping was very high or when the pattern of cross-border shopping had changed. Their focus was often on relatively short-term issues, and sometimes on ‘political’ goals. In other words, if there was a surge of cross-border shopping by Southern consumers travelling to the North, then pressure usually built up to identify any negative consequences for the South, or to explore ways that policies could be designed and implemented to reduce and reverse this activity.

In our case we have additional, longer term goals and we are also interested in the evolution of the structure of consumer markets, and the retail sector specifically, in the immediate cross-border region and in the hinterland of that region. On re-examining many of the relevant reports, and drawing on the results of current and previous research, we try to reinterpret some of the results in the context of our longer term, structural, border economy policy perspective. In other words, we need to understand the role of ‘macro’ or ‘national’ developments (such as taxation or exchange rate fluctuations) that are known to be the main drivers of cross-border shopping, where a proportion of the ‘shoppers’ can travel from densely populated urban centres that are not located close to the sparsely populated border counties. But we are also concerned with the fragile nature of the economy of the border region itself, where there is an urgent need to deepen consumer markets, make them more stable and robust, and strengthen linkages with the border region production sector.

Existing research from the mid-1980s which focused mainly on the narrower, ‘demand-side’ concept of cross-border shopping needs to be re-examined and re-interpreted in light of the wider concept of ‘consumer markets’ as a potential driver of regional development. The dramatic increase in the number of Southern consumers travelling to the North, usually during periods of sterling weakness relative to the euro, has generated a vigorous literature on the wider causes and consequences of the phenomenon. This literature is examined, drawing on available sources, and the implications for the performance of the border region economy explored.

In the context of our focus on the border region economy, we consider it important to emphasise that upsurges of cross-border shopping have almost nothing to do with economic characteristics internal to the border economy, as such. Rather they are almost always, and completely, driven by ‘national’ phenomena, such as a dramatic weakening of sterling against the euro, or by an underlying and systematic, nationwide deterioration in cost competitiveness in either the South or the UK that may be related to wage costs as well as to

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113 The ESRI study of 1988 and the NI General Consumer Council study of 1996 involved very large-scale surveys and were very expensive. The work of the Irish CSO on cross-border shopping is part of the regular Quarterly National Household Survey (or QNHS), and draws on the resources of the Statistics Office.

114 In one of the case studies to be described in Chapter 10 we were told that when firms based in the North won public contracts to supply institutions in the South, pressure to restrict such contracts, or at least to favour local firms, often arose. However, we did not come across any cases where contracts were awarded unfairly to local firms at the expense of tenders from a more competitive Northern firm.

This situation can operate either way, creating flows in both directions in terms of different products and at different points in time. So one aspect of our work is to show how cross-border shopping is an important factor in the border region economy that can generate differences in incomes and profits on one side of the border region at the expense of the other side, and even further afield.

But a factor that is likely to be more important in the longer term is the weak state of consumer markets in the entire border region, reflecting the relatively low levels of productive activities in these regions as discussed previously. Although the relatively low levels of income from productive activities, as measured by GVA per head, is offset to a considerable extent by inter-regional income support and other transfers, the weak state of the productive sector in the border region feeds back to the weak state of consumer and producer markets. Thus a vicious circle can be generated, a phenomenon that is explored by Jane Jacobs in her seminal works *Cities and the Wealth of Nations* (1986), and *The Economy of Cities* (1970). Weak and vulnerable regions often tend to become ever weaker and more vulnerable.

Drawing on our preliminary, top down, exploration carried out previously, we try to document our understanding of the evolution of local consumer behaviour within the border region and the centripetal and centrifugal forces that affect small peripheral regions in an era of increasing globalisation. Specific attention is given to documenting the role of the exchange rate ‘fault line’ between sterling and the euro as one obvious barrier to consumer market transparency and integration, where exchange rate movements above a certain magnitude appear to trigger ‘tipping points’ in consumer behaviour that can become path dependent, i.e. once cross-border shopping starts up, for whatever reasons, it can take on a life of its own. Of more importance to longer term development potential will be the role of consumer markets in facilitating the initial emergence of demand for new products from the region, where highly localized demand is often an essential first step in product testing and subsequent growth of producers. Specialist food products constitute an important case study in the cross-border region, which has become known for the mass production of food products that generate relatively modest added value. However, this is more an issue that can be examined in the next chapter when we examine productive conditions in the border region. An additional important question will concern cross-border advertising patterns, since evidence of cross-border advertising suggests that some of the consumer base targeted lies on other side of border.

The role of wholesale distribution and supply-chain systems in the area of consumer markets also needs to be examined. Once again, there is some limited information available in the public domain, although the major retail chains are often reluctant to provide any information on their strategic approaches to market segmentation. However, during the last decade, and specifically since the Belfast Agreement and the coming into being of cross-border bodies such as InterTradeIreland, marketing has gradually shifted from a segmented approach to an approach that treats the island economy as a single consumer market.

We start in section 9.2 with an examination of the ‘supply’ structure of the consumer part of the market services sector in the border regions. Our main source of data is the FAME database of all enterprises in the UK and Ireland. This database, which will also be used in the next chapter that deals with border ‘production’ structure, enables us to identify the kinds of market service enterprises that are closely involved in consumer activity within each border county. What emerges is a better understanding of the ‘supply’ side of border region consumer markets.

In section 9.3 we carry out a detailed review of the ‘demand’ side of the phenomenon of cross-border shopping, drawing on the extensive available research in this area. By ‘cross-border shopping’, we mean more than the normal aspects of consumers from the border region of one jurisdiction who shop in the border area of the adjoining jurisdiction. Whenever borders are permeable, consumers tend to cross and make purchases. However, the term ‘cross-border shopping’ has come to be associated with the very high level of such activities that occur from time to time, usually initiated and sustained by

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116 We will see in the next chapter that it was the deteriorating wage competitiveness that weighed most on firms located in the Southern border area, and not the exchange rate question.
emerging cross-border price differentials that arise for very specific reasons such as dramatic changes in exchange rate parities, rates of indirect tax levels or relative wage costs. During the period of protection, which lasted in one form or another from 1932 until well into the 1960s, cross-border shopping was severely constrained. Since then there have been periods of more intense cross-border shopping every decade, and these have been studied in great detail. We review these reports and draw implications from them.

In the concluding section 9.4 we turn to the deeper spatial and structural issues that influence the properties and performance of consumer markets in the cross-border region. The socio-economic characteristics of the border region, as examined in the previous chapter, have implications for how consumer markets develop and grow. The main distribution centres tend to be located in or near the larger towns in the region, and in a border region, and this can give rise to what we call the ‘missing hinterland’ problem, i.e. the fact that a large element of a town’s potential consumer base may lie in another jurisdiction. In this section we review our main research findings and attempt to judge the likely role played by consumer markets in alleviating the constraints to development of this region. However, it will be stressed that the joint roles of consumer and producer activities need to be examined simultaneously. Many of the challenges being faced by the cross-border region also face other peripheral regions in this island. But the cross-border region faces specific challenges if the island economy as a whole is to develop more rapidly.

9.2 Shops: The supply side of border consumer markets

In previous chapters we drew attention to the fact that the Southern CSO has a very detailed annual database on every industrial plant and enterprise in the South since the mid-1920s, but that the raw data for individual firms are not published. The price paid for placing a legal obligation on firms to submit such detailed information is that the subsequent publication of the database – the Census of Industrial Production or CIP – cannot permit any individual plant or enterprise to be identified. This means that the published version of the CIP is made only at the very highest level of disaggregation (NACE four-digit codes) for the country as a whole. Thus, for the entire economy of the South, the CIP is published at the full four-digit NACE classification. But at the level of each county, Regional Authority or NUTS 2 region, only results for aggregate manufacturing, agriculture and services are published.

Data on the market services side of the economy are not gathered in as detailed a fashion as the industrial data. At best one can obtain data on the totality of market and non-market services by Southern county, but little by way of county-level data disaggregated by sub-sectors of market services. We also drew attention to the fact that there were almost no useful data published in the North at a county, District Council or higher sub-regional level for manufacturing or market services, along the lines of what is officially made available by the Southern CSO. To obtain such data we must look to non-official sources.

There are many proprietary databases that provide information on individual businesses or on selected groups of related businesses. However, only two databases provide anything like what is required to examine the structure of the enterprise sector at a full level of sectoral and spatial disaggregation. These are the KOMPASS database117 and the FAME database.118 The KOMPASS database is designed more for marketing mail-shot use than for business research. The FAME database is set up to provide detailed data, admittedly of varying quality and completeness, on the activities of every business registered in the UK and Ireland. For this reason, we chose to use FAME.

FAME contains company financial information and business intelligence for companies in the UK and Ireland. Technically, at any point in time FAME should contain every single registered company. In practice, the time lag in updating FAME means that the data are 18–24 months old by the time they are published. Hence, some very new companies may be excluded, and some companies listed in the publication may have ceased trading.

117 For KOMPASS, see http://ie.kompass.com/.
118 For FAME, see http://fame.bvdep.com/version-2011421/cgi/template.dll?product=1.
FAME contains the following kind of company data:

- Basic descriptive information: Company name, previous company name(s), registered number, registered office address, phone, web address, primary and trading addresses and phone numbers, company type, date of incorporation, filing changes, accounting reference date, company status.

- Product information: Trade description, primary and secondary SIC codes (UK2003), brand names and major sectors, US SIC, NAICS and NACE codes, standard peer group.

- Quantitative information: Annual turnover, number of employees, etc.

- Audit information: Bankers, auditors, previous auditors, audit details including indicators of qualified/unqualified accounts, a post balance sheet event, audit exemption and contingent liabilities.

In principle, FAME permits one to search by any combination of over 300 criteria including such items as geographic location, SIC code or activity description, number of employees, statement items, ratios, credit score / rating, legal form, year of incorporation and holding company/subsidiary. However, in practice, not all variables in the database contain data, and some are left blank. The classification system used by FAME is currently the 2003 version of the UK-based Standard Industrial Classification (SIC) system for economic activities.\(^{119}\) It is unfortunate that FAME does not use the NACE system that EUROSTAT and the Irish CSO currently apply to classify economic activities, since it is not possible fully to reconcile the SIC classification with the NACE system.\(^{120}\)

Although FAME lists all enterprises, including manufacturing, services, agriculture, construction, utilities, etc., we are primarily interested in the market services sectors. In this section we do not use the full level of SIC disaggregation. Rather we can draw from a division of market services into 17 sub-sectors, listed in Table 9.1 below.

### Table 9.1: SIC (2003) broad sub-sectors of market services

<table>
<thead>
<tr>
<th>SIC(2003) code</th>
<th>Description of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>Sale, Maintenance and Repair of Motor Vehicles and Motorcycles, Retail Sale of Automotive Fuel</td>
</tr>
<tr>
<td>51</td>
<td>Wholesale Trade and Commission Trade, Except of Motor Vehicles and Motorcycles</td>
</tr>
<tr>
<td>52</td>
<td>Retail Trade, Except of Motor Vehicles and Motorcycles; Repair of Personal and Household Goods</td>
</tr>
<tr>
<td>55</td>
<td>Hotels and Restaurants</td>
</tr>
<tr>
<td>56</td>
<td>Land Transport, Transport Via Pipelines</td>
</tr>
<tr>
<td>61</td>
<td>Water Transport</td>
</tr>
<tr>
<td>62</td>
<td>Air Transport</td>
</tr>
<tr>
<td>63</td>
<td>Supporting And Auxiliary Transport Activities; Activities Of Travel Agencies</td>
</tr>
<tr>
<td>64</td>
<td>Post and Telecommunications</td>
</tr>
<tr>
<td>65</td>
<td>Financial Intermediation, Except Insurance and Pension Funding</td>
</tr>
<tr>
<td>66</td>
<td>Insurance and Pension Funding, Except Compulsory Social Security</td>
</tr>
<tr>
<td>67</td>
<td>Activities Auxiliary to Financial Intermediation</td>
</tr>
<tr>
<td>70</td>
<td>Real Estate Activities</td>
</tr>
<tr>
<td>71</td>
<td>Renting of Machinery and Equipment Without Operator and of Personal and Household Goods</td>
</tr>
<tr>
<td>72</td>
<td>Computer and Related Activities</td>
</tr>
<tr>
<td>73</td>
<td>Research and Development</td>
</tr>
<tr>
<td>74</td>
<td>Other Business Activities</td>
</tr>
</tbody>
</table>

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\(^{120}\) See [http://www.cso.ie/px/u/NACECoder/NACEItems/searchnace.asp](http://www.cso.ie/px/u/NACECoder/NACEItems/searchnace.asp) for the full NACE classification.
For example, if we wished to look at sub-sector SIC-55 (Hotels and Restaurants) in much more detail, we could extract further detail of the kind shown in Table 9.2.\footnote{See http://www.statistics.gov.uk/methods_quality/sic/downloads/uk_sic_vol1(2003).pdf for the complete disaggregation of SIC-34 available in SIC(2003).}

**Table 9.2: Further disaggregation of SIC sub-sector 55 (Hotels and Restaurants)**

<table>
<thead>
<tr>
<th>SIC</th>
<th>Description of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>Sale, Maintenance and Repair of Motor Vehicles and Motorcycles; Retail Sale of Automotive Fuel</td>
</tr>
<tr>
<td>51</td>
<td>Wholesale Trade and Commission Trade, Except of Motor Vehicles and Motorcycles</td>
</tr>
<tr>
<td>52</td>
<td>Retail Trade, Except of Motor Vehicles and Motorcycles; Repair of Personal and Household Goods</td>
</tr>
<tr>
<td>55</td>
<td>Hotels and Restaurants</td>
</tr>
</tbody>
</table>

However, in examining the narrower issue of cross-border consumer actions, we exclude areas of market services that are not relevant. A narrower set of relevant activities is shown in Table 9.3, and consists of those activities directly related to, or involved with what is commonly referred to as ‘cross-border shopping’.

**Table 9.3: SIC (2003) Shopping-related sub-sectors of market services**

An initial examination of the Southern and Northern data in FAME suggested that data for all possible FAME variables were seldom published. Fields were often left blank, even for important data on annual turnover and numbers employed. In view of the limitations of the coverage, we opted to extract a small subset of all possible variables, and these are listed in Table 9.4 below.

**Table 9.4: List of company variables extracted from FAME**

Since we have complete control over the geographical location of firms, we carried out data extractions for the entire eleven border counties previously listed in the report on Topic 1. We also include data for Dublin and Belfast (Antrim), the two largest cities on the island, each containing about one third of the total population of each region. The complete list of counties extracted is shown in Table 8.5.
### Table 9.5: Counties for which FAME Market Service Sector data were extracted

<table>
<thead>
<tr>
<th>South</th>
<th>North</th>
</tr>
</thead>
<tbody>
<tr>
<td>Louth</td>
<td>Down</td>
</tr>
<tr>
<td>Monaghan</td>
<td>Armagh</td>
</tr>
<tr>
<td>Cavan</td>
<td>Fermanagh</td>
</tr>
<tr>
<td>Leitrim</td>
<td>Tyrone</td>
</tr>
<tr>
<td>Sligo</td>
<td>Derry</td>
</tr>
<tr>
<td>Donegal (Antrim)</td>
<td>(Dublin)</td>
</tr>
</tbody>
</table>

#### 9.2.1 Shopping-related services in the border counties

In the following set of tables we show the data for shopping-related consumer supply activities in all the border counties using data extracted from FAME. We repeat the cautions made previously concerning the fact that the database is up to two years out of date. Consequently, it will not include the full impact of the severe contraction that accompanied the recession that hit both the Southern and Northern economies from 2008. Some of the companies listed in the current edition of FAME will undoubtedly have ceased trading by 2012.

Before presenting our analysis of these data, we need to stress that the Irish ‘county’ is not always a very logical unit of spatial analysis, either for manufacturing or for market services. For example, there may be a small border county that has a low rate of urbanisation (say, Leitrim or Fermanagh). Although it may, as a consequence, lack a large and sophisticated set of service providers in wholesale and retail distribution and in hotels and restaurants, its inhabitants may only have to travel short distances to access such facilities in adjoining counties. Although counties do not always have distinctive economies, the ‘county’ unit is useful when studying the border region, since it permits us to focus in on separate parts of the border region that appear to have rather different structural economic characteristics. However, the county, or the District Council area in the North (which is even smaller), is seldom the unit that should be used when developing economic strategy.

A second issue concerns the fact that, using FAME, we can at best examine the number of individual service enterprises in any specific region and identify reasonably precisely the type of service provided by that company. However, the firm could be big or small, in the sense of having a large annual turnover and/or a large number of employees. It could be a branch of Tesco or a small, local convenience store. Unfortunately, the turnover and employment data are largely missing from the Irish and Northern Irish FAME database. So we are constrained to use just the number of companies.

### The Northern border counties

Table 9.6 contains the data on the number of shopping-related service company enterprises in each of the five Northern border counties, plus Antrim, a country with no border to the South. We also include data on county population and on population density (in terms of people per sq. km.).

The absolute number of companies, while interesting, is difficult to interpret in any structural sense. To assist the interpretation, in Table 9.8 we show the number of companies in each of the shopping-related SIC market service categories, expressed per 1,000 of county population. In a hypothetic world of companies with standardised characteristics, this ratio might be expected to be roughly constant (i.e., on average there might be so many local customers per company). For the case of SIC code 50 (motor vehicles), this is roughly true. Perhaps in the case of motor vehicles, consumers tend to ‘shop local’, since there is always a high service element to owning a motor vehicle.

For the rest of the market service categories there is some variation in the ratios. For example, in the case of SIC 52 (Retail Distribution), the ratio varies from a low of 0.9 companies per 1,000 population for Down to a high of 1.9 for Fermanagh. In Figure 9.1 we show a scatter diagram, where the vertical axis

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122 For example, the small District Council areas of Strabane and Limavady are located very close to Derry City. Planning in Strabane and Limavady is difficult if it is not carried out in close co-operation with Derry.

123 We stress that FAME does not include enterprises that are sole traders. While this is probably not a serious omission in manufacturing, it is more serious in market services. But by working with the set of companies listed in FAME, and making the assumption that the ratio of sole traders to companies is fairly stable across space, we can obtain a reasonable estimate of the nature of these shopping-related activities in each border county.
is the total number of companies in the categories SIC 50, 51, 52 and 55, and the horizontal axis is the population density of the county (expressed as numbers per sq. km.). Curiously, County Down has the lowest total number of enterprises per unit of population, and also has the lowest number of retail companies (SIC 52) per unit of population, even though it is the county that possibly benefits most from cross-border shopping since it is located close to the densest population area of the South (i.e., on the East Coast Corridor).

**The Southern border counties**

We turn now to the six Southern border counties, and the results are shown in Table 9.7, with the corresponding structural analysis in Table 9.8. It is immediately apparent that for all Southern counties,

**Table 9.6: Structure of market service sector in the Northern border counties: numbers of companies**

<table>
<thead>
<tr>
<th>SIC(2003) code</th>
<th>Description of activity</th>
<th>Down</th>
<th>Armagh</th>
<th>Fermanagh</th>
<th>Tyrone</th>
<th>Derry</th>
<th>Antrim</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>Sale, Maintenance and Repair of Motor Vehicles and Motorcycles; Retail Sale of Automotive Fuel</td>
<td>129</td>
<td>79</td>
<td>26</td>
<td>89</td>
<td>92</td>
<td>250</td>
</tr>
<tr>
<td>51</td>
<td>Wholesale Trade and Commission Trade, Except of Motor Vehicles and Motorcycles</td>
<td>303</td>
<td>134</td>
<td>34</td>
<td>139</td>
<td>155</td>
<td>720</td>
</tr>
<tr>
<td>52</td>
<td>Retail Trade, Except of Motor Vehicles and Motorcycles; Repair of Personal and Household Goods</td>
<td>424</td>
<td>211</td>
<td>111</td>
<td>217</td>
<td>301</td>
<td>826</td>
</tr>
<tr>
<td>55</td>
<td>Hotels and Restaurants</td>
<td>185</td>
<td>69</td>
<td>44</td>
<td>61</td>
<td>147</td>
<td>434</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>1041</td>
<td>493</td>
<td>215</td>
<td>506</td>
<td>695</td>
<td>2230</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td></td>
<td>489,588</td>
<td>126,803</td>
<td>57,527</td>
<td>158,460</td>
<td>211,669</td>
<td>616,384</td>
</tr>
<tr>
<td><strong>Population density (/ km²)</strong></td>
<td></td>
<td>167.7</td>
<td>101.1</td>
<td>34.0</td>
<td>50.2</td>
<td>102.1</td>
<td>216.7</td>
</tr>
</tbody>
</table>

**Table 9.7: Structure of market service sector in the Southern border counties: numbers of companies**

<table>
<thead>
<tr>
<th>SIC(2003) code</th>
<th>Description of activity</th>
<th>Louth</th>
<th>Monaghan</th>
<th>Cavan</th>
<th>Leitrim</th>
<th>Sligo</th>
<th>Donegal</th>
<th>Dublin</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>Sale, Maintenance and Repair of Motor Vehicles and Motorcycles; Retail Sale of Automotive Fuel</td>
<td>117</td>
<td>43</td>
<td>49</td>
<td>9</td>
<td>23</td>
<td>76</td>
<td>932</td>
</tr>
<tr>
<td>51</td>
<td>Wholesale Trade and Commission Trade, Except of Motor Vehicles and Motorcycles</td>
<td>264</td>
<td>96</td>
<td>83</td>
<td>13</td>
<td>82</td>
<td>168</td>
<td>3432</td>
</tr>
<tr>
<td>52</td>
<td>Retail Trade, Except of Motor Vehicles and Motorcycles; Repair of Personal and Household Goods</td>
<td>324</td>
<td>112</td>
<td>94</td>
<td>29</td>
<td>89</td>
<td>257</td>
<td>3283</td>
</tr>
<tr>
<td>55</td>
<td>Hotels and Restaurants</td>
<td>199</td>
<td>43</td>
<td>83</td>
<td>28</td>
<td>69</td>
<td>187</td>
<td>2454</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>904</td>
<td>294</td>
<td>309</td>
<td>79</td>
<td>263</td>
<td>688</td>
<td>10101</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td></td>
<td>111,267</td>
<td>55,816</td>
<td>64,003</td>
<td>28,950</td>
<td>60,894</td>
<td>147,264</td>
<td>1,187,176</td>
</tr>
<tr>
<td><strong>Population density (/ km²)</strong></td>
<td></td>
<td>135.7</td>
<td>43.1</td>
<td>33.1</td>
<td>18.2</td>
<td>33.2</td>
<td>30.4</td>
<td>1289.0</td>
</tr>
</tbody>
</table>
with one exception, the numbers of companies in each of the four shopping-related SIC categories are greater than in the case of the Northern counties. The exception is County Leitrim, the smallest and least densely populated county. Figure 9.2 is a scatter diagram where once again the vertical axis is the total number of companies in the categories SIC 50, 51, 52 and 55, and the horizontal axis is the population density of the county (expressed as numbers per sq. km.). We see the patterns of a relationship between population density and numbers of companies per unit of population. The higher the population density, the higher the numbers of companies per unit of population.
In this diagram we exclude Dublin because it would distort the scale of the diagram too much. For a large and highly urbanised city region like Dublin, it appears that the number of companies per unit of population probably asymptotes at a value in the range 9 to 10, and does not rise much further. In other words, it seems to require fewer enterprises to service a population that is highly clustered within a relatively small area.

9.2.2 The ‘supply’ characteristics of cross-border consumer activities

In view of the limitations of the FAME database, we have to be careful in offering any interpretations of the patterns of shopping-related services shown in Tables 9.6, 9.7 and 9.8. But some suggestive patterns do emerge from the FAME data. It would appear that the Southern shopping-related service sector is more highly developed if we define ‘developed’ in terms of companies per 1,000 of local population. However, this conclusion would be questionable if it were shown that Northern enterprises in these shopping-related SIC categories had a lower propensity to register as companies, and a higher propensity to set up as sole traders. Another factor that would call the above claim into question would be if it were shown that Northern establishments in these SIC categories were larger than the corresponding establishments in the South. However, this does not appear to be the case on the basis of casual investigation.

Another factor that may point to the different development of the shopping-related sector in the South and North is that there is a fairly systematic relationship pattern between population density and number of establishments in the South, but no such relationship in the North. We will come upon this finding again in the next chapter when we look at the relationship between population density and the number of manufacturing plants per unit of population. If this is true, then it points to a kind of fragmentation of population in the North that may be related to a persisting division between the two main community groups. In other words, the normal market forces that bring about diversification in the supply of consumer-related establishments in the South may not operate to the same extent in the North.

Given the preoccupation with the extent of cross-border shopping, and the fact that most of the main periods of rapid increase of this activity involved a very heavy flow of consumers from the South making trips to the North, the above findings – however tentative they may be – are initially puzzling. However, in the next section we examine the ‘demand-side’ of cross-border shopping and we will see patterns of behaviour that are consistent with the ‘supply’ analysis. In other words, cross-border shopping does not appear to be a phenomenon that is equally extensive across the whole of the South, but is concentrated mainly in regions closest to the border. In addition, the range of consumer goods and services purchased by cross-border shoppers seems to be fairly limited, and particularly involves relatively expensive consumer goods that are highly taxed in the South, like alcohol. The picture below presents the case dramatically.

Figure 9.3: Cross-border shopping, piled high!

This would imply that much of the influx of consumers from the South probably will make purchases in a relatively small number of large supermarkets located in large towns and will largely bypass other specialist shops where the goods and services purchased often require a degree of after-sales service that would be inconvenient if the consumer were resident far away. As we shall see in the next section, this turns out to be the case.

9.3: Shopping: The demand-side of cross-border consumption

Other factors being equal, consumers tend to make their purchases in shops and other service providers located near where they live and work. They only seek to consume at a distance if there are strong incentives to do so. These incentives mainly come in the form of cheaper prices, but can also involve novelty in the form of goods or services that are available in a distant location, but not near their place of residence. For consumer goods the reduction of tariff and non-tariff barriers within the EU Single
Market, combined with the worldwide process of tariff reduction and globalisation, means that consumers in any given EU state effectively have access to goods in all other EU states. Access and availability have become more minor barriers to cross-border consumption of goods. Services, on the other hand, tend to have characteristics that channel consumers to nearby suppliers. The main exception, of course, is tourism. Tourists travelling to another country are, in effect, engaging in cross-border shopping, mainly for services. But here the incentive tends to be on the supply-side (e.g. the ‘supply’ of Mediterranean-style sunny weather in Ireland, North or South, is problematic!), but can also involve price incentives (e.g., cheaper flights, cheaper accommodation, and cheaper food and alcohol).

Of course, within any state, consumers located in sparsely populated, remote regions will be obliged to travel to urban centres in order to purchase some kinds of goods and services. Relative price effects may be a factor in the decision, but the main driver will be supply, as discussed in the previous section. Prices can and do vary across any national territory, but any deviations tend to be modest, particularly for homogeneous, mass-produced consumer goods. But whether consumers are located in remote regions or densely populated urbanised regions, the decision to make purchases in another state is now invariably driven by relative prices. So the explanation of what is termed ‘cross-border shopping’ essentially comes down to an exploration of inter-state relative prices, the determinants of price differences for similar goods and services, and the consequences of the emergence of differences in relative prices for the structure and volume of consumer purchases.

The characteristics of the supply side of consumer markets are relatively inertial and slow-changing. They tend to be associated with demographic shifts, when population builds up in some regions and declines in others. This is usually associated with other aspects of the wider evolution of a regional economy. For example, the establishment of a new higher education institution may trigger a rise in inward investment and local business formation, increase the demand for labour, attract inward migration, boost the demand for housing and stimulate building and construction activities, and ultimately boost the supply of market service outlets that are directed at satisfying increased and probably more sophisticated consumer demand. None of these processes take place rapidly. Rather, they evolve gradually, even over many decades.

However, on the demand side there can be very rapid expansions and contractions in consumer demand that have little or nothing to do with slowly evolving supply conditions. This occurs when consumers in one region come to realise that significant price differentials have emerged between their local prices and ‘foreign’ prices that apply in regions to which they have access without too much by way of travel costs. The island of Ireland is an EU region where these differentials can emerge for a variety of reasons, and where there can be immediate and disruptive consequences. Ireland is probably unique in the EU in that it consists of a relatively small island with an international border that divides two sovereign states. It is certainly unique in that these two states – the Republic of Ireland and the UK (at least the Northern Ireland region of the UK) – share a common language and have freely interchangeable newspaper, radio, television and cinema media and common sporting events. Due to centuries of cultural and other interchanges between the two states, consumer tastes are similar in terms of common food and beverage items and entertainment and sporting interests. And of most importance as a driver of price differences, these two states have different currencies. Hence it is not at all surprising that bursts of accelerated cross-border shopping arise when relative prices fluctuate and that these command public attention.

Within the past three decades there have been three major periods of heightened interest in cross-border shopping. The first arose in the mid-1980s, at a time when the South had just joined the European Monetary System (EMS) exchange rate linkage system in the absence of UK membership, when the country was mired in recession and low growth, and when tax rates on consumer expenditure had been increased dramatically in order to address a fiscal crisis of large public sector borrowing and high levels of national debt. The second arose in the mid-1990s, a period of relatively fast growth and development in the South and of emerging peace in the North, when two-way cross-border shopping grew steadily in the aftermath of the implementation of the Single European Market in 1992. The third, more recent, episode arose during the onset of the present recession, starting up in 2008 when
Southern cost competitiveness collapsed, sterling became weak against the euro, and there was a rapid build-up of cross-border shopping mainly by Southern consumers travelling to the North.

Each of these three episodes generated demand for in-depth research. The 1980s episode produced a major research report carried out by the ESRI and funded by the European Commission as part of the Commission’s preparations for the completion of the internal Community market and necessary harmonisation of taxation (FitzGerald et al., 1987). The 1990s episode produced a report carried out by the University of Ulster and the ESRI for the General Consumer Council for Northern Ireland (Fitz Gerald et al., 1996). The most recent episode of the emergence of a strong flow of South consumers to Northern Ireland has been examined and documented in a series of studies carried out by the Irish Central Statistics Office (CSO, 2009a; CSO, 2009b; CSO, 2010). Although these reports cover a period of over two and a half decades, there are many common themes in each, and the main issues are common. In the remainder of this section we re-examine these studies, and draw conclusions and implications for the future.

### 9.3.1 Cross-border shopping in the 1980s

The first modern study of cross-border shopping (ESRI, 1987 and 1988) was initiated by the European Commission as part of the preparation for the implementation of the Single European Market. It was carried out by the ESRI in Dublin and focused exclusively on what we have termed the ‘demand side’ of consumer activities. Specifically, it examined the following five issues:

a) The facts about movements in relative prices as between the South and the UK, where prices in the North are assumed to track those of the wider UK market;  

b) The driving forces behind the emergence of sustained price differentials between the South and the UK, particularly during the second half of the 1980s;

c) The consequences of cross-border shopping in terms of the volume of emerging consumer activity;

d) A survey-based examination of the reasons why consumers decide to undertake cross-border shopping expeditions;

e) An econometric investigation of the likely causes of cross-border shopping.

In terms of the first issue – relative price movements - the late 1970s was a particularly interesting time in the history of economic relations between the South and the North. Up to the 1970s consumer prices in the South tracked those of the UK (and hence, of the North) with a very short time lag (see Bradley, 1977 for details). However, when the South entered the European Monetary System (or EMS) in 1978, and the UK stayed out, it precipitated the break in the century-long one-to-one link between the Irish and UK currencies. In the aftermath of the break, the former close relationship between South and UK consumer prices broke down. In the early part of the 1980s, sterling strengthened due to the impact of North Sea oil and the second OPEC oil price rise. In Figure 9.4 we see that UK consumer prices (re-denominated in £IR) rose relative to Southern prices. But from the middle of the decade, UK consumer prices fell sharply relative to Southern prices, once again denominated in £IR.

**Figure 9.4: Consumer price index in the South and the UK (1979–1988)**

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124 Regional price indices are not published in the South or the UK. However, it is known that modest differences between prices in regions can arise. However, these tend to be small and may be influenced by differences in consumption patterns. The main reason for fairly uniform regional prices within a state is that there is always a common currency and common expenditure taxes.
Regional prices are not gathered or published in the UK or in the South by their respective national statistical agencies. However, it is well known that regional price differences exist. For example, information is gathered on a survey basis by the National Prices Commission in the case of the South. Data for the latter half of the 1970s showed price levels in Belfast and Liverpool were broadly similar to the level in the South. But during the first half of the 1980s, significant differences began to emerge, with Southern price levels increasing as much as 10 per cent higher than in Belfast and Liverpool. In February 1988, the ESRI itself undertook a detailed survey of consumer prices in the border area, using ‘pairs’ of towns on either side of the border. These included: Letterkenny and Derry; Lifford and Strabane; Monaghan and Enniskillen; Dundalk and Newry; and finally, Dublin and Belfast. The overall survey found that the unweighted average price difference between the South and the North for the range of consumer products examined was +20.7 per cent, including taxes. Indeed, the differences were particularly marked for goods liable to excise taxes. However, drawing on comparative EU data from EUROSTAT, the ESRI report noted that the UK was something of an anomaly, since UK price levels in the late 1980s were systematically lower than prices in most EU continental states. Southern prices moved higher than UK prices, but remained relatively fixed with respect to prices in, say, Germany and France. Unfortunately, it was the North and not Germany and France that had a common land border with the South!

The second issue investigated by the ESRI was the drivers behind the emergence of price differences between the South and the North in the mid and late 1980s. The most obvious factor was the emergence of much higher rates of indirect taxation in the South during the first half of the 1980s, as the Southern authorities grappled with a fiscal crisis where the annual public sector borrowing requirement rose to almost 15% of GDP and the public debt-to-GDP ratio climbed above 100 per cent. By the late 1980s, Southern rates of VAT and excise duties were very much out of line with, and higher than, those in the UK. The extent of the differences are shown in Tables 9.9 and 9.10 below.

<table>
<thead>
<tr>
<th>Table 9.9: South and UK VAT rates: 1972-1986</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Table 9.9: South and UK VAT rates: 1972-1986" /></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 9.10: Southern and UK rates of excise tax in 1987</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Table 9.10: Southern and UK rates of excise tax in 1987" /></td>
</tr>
</tbody>
</table>
The consequences for the differential between South and UK consumer prices is illustrated in Figure 9.5, where the graph shows the ratio of the tax exclusive and tax inclusive Southern consumer prices indices to the UK index, expressed in £IR.\textsuperscript{125} From the beginning of 1980 to the end of 1987, consumer prices in the South rose by 23 percentage points more than in the UK (and consequently, the North). Of this excess increase, 16 percentage points were directly attributable to the rise in the burden of indirect taxation in the South. Of the remaining 7 percentage points ‘net of tax’ gap, the ESRI survey suggested that the explanation was that Southern prices had not adjusted to the higher value of the £IR vis-à-vis sterling, when sterling weakened in the mid-1980s. This slow speed of adjustment of prices to exchange rate changes is a common phenomenon in the rest of the world. Unstable exchange rates make it difficult to eliminate price distortions in the EU internal market. And the South found itself in a zone of particularly unstable exchange rates.

The third issue examined by the ESRI concerned the quantification of the extent of cross-border shopping. To this end, a large-scale survey of some 4,000 households in the South was carried out during a six month period, ending in January 1987. In addition, a specific ‘border’ survey was administered to a random sample of 2,000 households drawn from the five border counties of Donegal, Leitrim, Cavan, Monaghan and Louth. The results showed that approximately 12 per cent of households in the South made a total of over 800,000 shopping trips to NI in the last six months of 1986. In the case of the border counties, the percentage of cross-border shopping households rose to 46, and the value of their purchases in the North was estimated to be in the range £IR57 million to £IR119 million. For the rest of the non-border South, expenditure amounted to at least £IR27 million in 1986. The items most frequently purchased in the North were petrol, other groceries and food. Of additional interest was the finding that car ownership and distance from the border were important factors in explaining the extent of cross-border shopping. The number of shopping trips fell by nearly 1 per cent for every additional mile from the border. Conversely, the further the shopping household was from the border, the higher the expenditure per trip.

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{figure9.5.png}
\caption{RoI and UK: Effects of indirect taxes on relative prices}
\end{figure}

The final two issues concerned investigation of the reasons for making a cross-border shopping trip. Using their survey data, the ESRI found that households tended to have fairly accurate knowledge of the exchange rate for the £IR and sterling, so a strong £IR was a key motivation to shop in the sterling area. Household perceptions of the relative prices of a range of goods were more mixed. In some cases – petrol – perceptions were accurate. In others, households had a tendency to over-estimate the potential cost benefit of cross-border purchases. Using the fairly limited time-series data that were available, the ESRI tried to model Southern sales of a small range of goods that were particularly important in cross-border shopping, using Southern and Northern explanatory variables. The objective was to try to predict how the level of Southern sales of items like spirits, for example, would be affected by changes in tax rates and exchange rates. They were able to show that cuts in tax rates on specific items like spirits and TV sets would be almost self-financing, in the sense that the re-direction of cross-border purchases of these items to the domestic market would bring in enough additional tax revenue to almost offset the reduction in revenue due to the lower rate.\textsuperscript{126}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|}
\hline
Item & Southern Sales (£IR million) \\
\hline
Spirits & 57
\hline
TV Sets & 119
\hline
\end{tabular}
\caption{Southern Sales of Selected Items}
\end{table}

\textsuperscript{125} Tax rates in the UK did not change much over the period 1979–1988, so the UK tax inclusive and tax exclusive indices would show a similar pattern.

\textsuperscript{126} Additional policy decisions such as the introduction of a ‘48 hour rule’ to restrict cross-border shopping were also taken, and served to lower the level of cross-border activity. This was before the introduction of the Single European Market!
### 9.3.2 Cross-border shopping in the 1990s

By the mid-1990s the economy of the South had recovered fully from the recession of the 1980s and the consequential fiscal crisis. Growth reached historically high rates, driven mainly by a boom in inward investment in the manufacturing sector. This was the so-called ‘Celtic Tiger’ period. In the North civil unrest was slowly winding down and would culminate in 1998 with the signing of the Belfast Agreement and the establishment of the power-sharing executive in Stormont.

It was during this period, from the mid-1990s onwards, that there was a renewed interest in cross-border shopping. However, the difference from the 1980s was that the phenomenon had now become more of a two-way process. This was the context in which the General Consumer Council for Northern Ireland commissioned the University of Ulster and the ESRI to carry out a report entitled *Extending Consumer Choice: Cross-Border Shopping on the Island of Ireland*, and this was published in the summer of 1996.

In line with their focus on benefits to consumers, the GCC for Northern Ireland were interested in examining the manner in which a more integrated consumer market was slowly coming about on the island. Obviously, they wished to re-examine the extent of cross-border shopping, but now with a focus on shopping in both directions. They were also concerned with understanding the kinds of factors that would encourage or inhibit cross-border shopping trips, and the manner in which information on availability and of consumers’ rights were being handled. Finally, they wished to understand the perception of the retail sector on these issues, together with those of consumer advisory bodies and legal institutions.

Whereas interest during the period of high cross-border shopping activity in the 1980s was sparked mainly by the concern of Southern policy makers that the revenue from indirect taxation was being eroded, interest during the late 1990s was more broadly based, and involved Northern as well as Southern stakeholders. People on both sides of the border were beginning to think about it in economic terms. For example, it was stated that:

> Borders, by interrupting contact to varying degrees, have equivalent effect of increasing distance between locations on either side of the political boundary. One effect is to seriously distort market hinterlands for activities including shopping centres, particularly for those adjacent to borders. Across the border the effective hinterland is significantly reduced. It is recognised that the Irish border is particularly effective in dampening cross-border shopping. It has been estimated that travel between Belfast and Dublin was less than 25% of what would otherwise be expected (GCC of NI, 1996, page 2).

After an initial series of preliminary interviews designed to provide guidance on the main research effort, a ‘belief elicitation’ survey (involving about 300 respondents interviewed on the street) was conducted in border towns and cities as well as in ‘East Coast Corridor’ urban areas in order to explore evolving attitudes to cross-border shopping, positive and negative influence factors, and the role of the deepening Single European Market in the process.

The main ‘omnibus’ survey consisted of 2,025 household surveys conducted at 100 locations throughout the island, half in the South and half in the North. Finally, a ‘shopping centre’ survey was carried out at locations in Letterkenny, Derry, Strabane, Monaghan and Enniskillen in the immediate border area, as well as in the eastern corridor urban areas of Dublin, Belfast, Dundalk and Newry. This consisted in 1026 interviews with consumers who crossed the border for shopping.

The results from the ‘belief elicitation’ survey was broadly in line with what one might have anticipated and what had been previously found with Southern consumers during the ESRI surveys carried out ten years before. For example, the most frequently stated ‘positive’ factors that encouraged travel across the border were cheapness/value for money (21%); more variety/selection (19%); a day out (8%); better shops/shopping centres (6%); and a good or different ‘atmosphere’ (5%). The most frequently stated ‘negative’ factors that discouraged travel across the border were “never crossing the border” or “not crossing the border often” (28%);
expensive (16%); little difference in price (13%); and a tiring journey due to long distance (11%). When asked what were the factors that would encourage them to cross the border, the most frequently stated issues were better value for money, either through lower prices or a better exchange rate, and the continued absence of political violence.

The ‘omnibus’ survey gave detailed data on the socio-economic background of consumers, but there were no obvious connections between background and cross-border shopping behaviour that were in any way different from normal, intra-regional shopping behaviour. However, there was an interesting asymmetry between the propensity of Northern respondents to cross the border (88% had; 13% had not) and the corresponding behaviour of Southern respondents (47% had; 53% had not). However, this may have nothing to do with the border other than the mere fact that respondents from Cork or Kerry have much further to travel to it than, say, respondents from north Antrim. Perhaps more interesting was that ‘shopping’ was given by only 11% of Northern respondents as the main journey purpose for cross-border travel, but 42% of Southern respondents gave this as the main reason. On the other hand, 62% of Northern respondents gave ‘leisure/recreation or holiday’ as the main reason, while only 27% of Southern respondents gave that as the main reason. Finally, ‘visiting friends/relatives’ had a fairly balanced share, 13% for Northern respondents and 16% for Southern respondents.

With respect to the types of shops visited, by far the most popular were city centre shops, city/town shopping centres, and town high street shops. The report makes an interesting observation that city centre shops were more frequently visited by respondents from the South (68%, compared to 54% for the North), which may reflect the longer tradition and higher market share held by edge and out-of-town shopping centres in the North. This may be one of the reasons for the greater degree of dispersal of shops over counties that we observed from our analysis of the FAME data in the previous section of the chapter.

As with the ESRI survey of the previous decade, the GCC ‘omnibus’ survey confirmed that a rather narrow range of consumer goods made up the bulk of cross-border purchases. The main results are shown in Table 9.11.

**Table 9.11: Products bought in last shopping trip across the border**

<table>
<thead>
<tr>
<th>Product</th>
<th>Northern</th>
<th>Republic of Ireland</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and groceries</td>
<td>54%</td>
<td>23%</td>
<td>41%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>40%</td>
<td>22%</td>
<td>29%</td>
</tr>
<tr>
<td>Alcohol</td>
<td>30%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>Other</td>
<td>52%</td>
<td>31%</td>
<td>40%</td>
</tr>
<tr>
<td>Pets and plants</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Diapers</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Sporting goods</td>
<td>10%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Hobbies and leisure</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Home furnishings</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>20%</td>
<td>12%</td>
<td>16%</td>
</tr>
</tbody>
</table>

The main difference between shoppers from the North compared to shoppers from the South is that almost double the percentage of purchases of cigarettes and alcohol are made by Southern consumers (40%) compared to the 21% made by Northern consumers. For the other items, cross-border trade was fairly evenly balanced with respect to shares of type of goods purchased. This is consistent with the updated relative price data for the South and the UK for the years immediately prior to the time when the survey was taken (Table 9.12).

**Table 9.12: Prices in the UK as percentage of Southern prices (based on 1993 ppp data)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Northern</th>
<th>Republic of Ireland</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and groceries</td>
<td>106%</td>
<td>94%</td>
<td>100%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>109%</td>
<td>112%</td>
<td>110%</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>134%</td>
<td>128%</td>
<td>131%</td>
</tr>
<tr>
<td>Alcohol</td>
<td>116%</td>
<td>111%</td>
<td>114%</td>
</tr>
<tr>
<td>Other</td>
<td>100%</td>
<td>95%</td>
<td>98%</td>
</tr>
<tr>
<td>Pets and plants</td>
<td>100%</td>
<td>95%</td>
<td>98%</td>
</tr>
<tr>
<td>Diapers</td>
<td>100%</td>
<td>95%</td>
<td>98%</td>
</tr>
<tr>
<td>Sporting goods</td>
<td>100%</td>
<td>95%</td>
<td>98%</td>
</tr>
<tr>
<td>Hobbies and leisure</td>
<td>100%</td>
<td>95%</td>
<td>98%</td>
</tr>
<tr>
<td>Home furnishings</td>
<td>100%</td>
<td>95%</td>
<td>98%</td>
</tr>
<tr>
<td>Other</td>
<td>100%</td>
<td>95%</td>
<td>98%</td>
</tr>
</tbody>
</table>

127 The “never crossing the border” reason for not engaging in cross-border shopping is somewhat circular! However, it is probably picking up views in the South and in the North that are actively hostile to the adjoining region, unconnected to any issues related to household economic welfare.

128 The letters ‘ppp’ stand for ‘purchasing power parity’ where the national prices of similar goods are expressed in a common currency. Purchasing power parity allows you to compare the standard of living between countries by taking into account the impact of their exchange rates.
9.3.3 Cross-border shopping in the 2000s

The period of the 1990s was one during which the island consumer market became better established and cross-border shopping developed more evenly on both sides of the border. However, the systematic loss of competitiveness experienced in the Southern economy during the following decade gave rise to a return to asymmetry in consumer behaviour on the island as price differentials of the kind previously experienced in the 1980s returned. With greater media coverage and new, web-based information outlets, information on the emerging price differentials was more pervasive and served to stimulate cross-border shopping by Southern consumers. The areas of origin of the shoppers was also more widely spread, as shown in Figure 9.6.

Figure 9.6: Southern households who made a shopping trip to NI (Period 2008(Q2) to 2009(Q2)

At annual intervals, the Southern CSO now publishes details of cross-border shopping. At the time of writing, the latest issue was in November 2010, which surveyed households during the second quarter of 2010. Our comments relate to this issue of the Quarterly National Household Survey (QNHS). It was estimated that the 12-month total of household expenditure up to the second quarter of 2010, was €435 million. This was essentially unchanged from the previous 12-month total. The average amount spent by each household on their most recent trip to the North was €274, broadly similar to that of the previous CSO survey. About 14% of all households made at least one trip in the 12 month period surveyed. The proportion of Dublin households making cross-border trips was higher, at 15%, but had fallen from 21% the previous year. For households who had shopped in the North, the frequency of trips was 8.6 per year, up from 6.7 for the previous year. So fewer households were making trips, compared to the previous year, but those who did were doing so more often.

The distribution of goods purchased is shown in Figure 9.7, and is observed to have remained fairly stable over the previous two and a half decades since the first ESRI survey was made in 1987.

Figure 9.7: Goods purchased on most recent shopping trip to NI (Q2 2010)

As might be expected, the further a household had to travel to reach the North, the higher the average expenditure per shopping trip, as illustrated in Figure 9.8.

In February 2009 the Irish Revenue Commissioners and the CSO published a report on The Implications of Cross-Border Shopping for the Irish Exchequer. Thus the wheel had come full circle since the issue...
of revenue loss by the Southern exchequer had been a major concern during the 1980s, when it was first realised that the existence of the border, and the possibility of cross-border shopping, placed constraints on the extent to which tax rates and prices could be allowed to deviate between the South and the North without triggering large-scale cross-border shopping activities. The Revenue Commissioners’ report revisited the causes of cross-border price differentials and singled out four main factors: costs, taxes, profit margins and currency exchange rates. On the issue of costs, it was found that – in the words of the report:

*Operating costs are higher in Dublin than Belfast, by up to 46 per cent in some cases for comparable businesses. Costs in Dublin are more in line with London than Belfast. For other regional cities in Ireland such as Cork, Galway or Limerick, costs are lower than Dublin but in general are still higher than Belfast.* (CSO, 2009, p. 5)

The elements of *higher costs* included wage rates and energy costs. In addition, wholesale purchasing costs were also higher than in the UK since the size of the UK market allows suppliers to achieve economies of scale not possible in the Southern market, and the lower UK costs were passed on to retailers located in the North. The estimate was that higher operating costs probably add about 5 to 6 per cent to the total cost base of retailers in Dublin compared to Belfast.

Turning to *taxes*, Table 9.13 reproduces the situation with respect to VAT in the Republic and the UK. The differentials between the South and the UK had widened slightly in the period of the survey, with a small rise in the Southern rate and a cut in the UK rate.

There were also differences in excise duty rates, with higher rates in the South on beer, spirits, wine and tobacco, but lower South rates on petrol and diesel.130

The third possible factor was *profit margins* achieved by retailers. A study by the National Competitiveness Council in 2008 compared the degree of price variation between retailers in the South and the North and found evidence of more price competition between retailers in the North than among the same retailers in the South. Price matching rather than price competing was found to be common among retailers in the South. This suggests that profit margins of the large supermarket chains are higher in the South, as less competition implies higher profits, and therefore is likely to be

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130 For example, in January 2009 a survey found that a bottle of whiskey was €9.71 more expensive in the South, with excise duty accounting for €4.03 of the difference.
another factor in higher Southern prices compared to Northern prices.

The fourth factor, exchange rates, was found once again to be the major issue that drives a ‘wedge’ between Southern and Northern consumer and other prices. The path of the euro/sterling exchange rate was for the period January 2008 to January 2009, where sterling depreciated significantly during the last months of 2008 (Figure 9.9).

**Figure 9.9: The euro/sterling exchange rate: January 2008 to January 2009**

Other things being equal, an x% depreciation in sterling relative to the euro will lead to an x% fall in the euro-denominated price to the Southern consumer shopping in the North, but an x% rise in the sterling-denominated price to a Northern consumer shopping in the South. In some cases, the Southern retailer will absorb a part of the price rise being faced by his Northern customers. But in general the exchange rate price rise has to be borne by the Northern consumer in the South, and the incentive to shop in the South is diminished. The Southern consumer shopping in the North, however, experiences lower sterling prices, and has an increased incentive to cross the border. And the simple assumption is usually made that a euro more spent in the North is a euro less spent in the South.\(^{131}\)

Although the Revenue Commissioners’ preoccupation with the tax base is not integral to the functioning of the island consumer market in a direct way, nevertheless it is interesting to review their estimate of tax revenue lost as a result of cross-border shopping (Table 9.14).

The effect of cross border shopping on VAT and excise revenues is the main source of loss to the Southern exchequer, although there are also less direct implications for corporation tax, income tax and other taxes as a result of business and income lost as consumers spend less in the South. Full estimation of such effects would be a very complex task, but the effect on corporation tax revenue can be estimated by assuming that the entire Southern consumer expenditure in the North represents revenue lost to Southern businesses, and that this comes out of their profits. This is undoubtedly an over-estimate of the loss, but is indicative of the possible magnitudes (Table 9.15).

**Table 9.14: VAT and excise duty revenue lost due to cross-border shopping**

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\(^{131}\) In fact, there is probably no simple one-for-one trade-off between Southern expenditure in the North as distinct from the local market. If Southern consumers face higher prices in their local market, they are likely to alter their consumption pattern and seek out lower priced substitutes in their own local market as well as seeking lower priced identical goods in the Northern market.
9.3.4 Conclusions

We have reviewed the three periods during which there was heightened interest in the phenomenon of cross-border shopping. During the first (1980s) period and the most recent (2000s) period, it was the rapid build-up in the number of Southern consumers travelling to the North to make purchases that caught the attention of policy makers in government and in the private retail sector in both jurisdictions. During the middle (1990s) period, it was the gradual evolution of the island consumer market, with two-way shopping traffic, that commanded attention.

In all three periods, the main determinants of the demand side of cross-border shopping were the same, namely, emerging differences in relative North–South prices. During the first and third periods, it was the dramatic loss of price competitiveness in the South that encouraged Southern consumers to seek out cheaper priced goods north of the border. And for consumers living close to the border, the travel and time costs were modest. In both periods, a weak sterling relative to the £IR (in the 1980s) and relative to the euro (in the late 2000s) were the major causes of shifts in relative prices. But an additional factor in the 1980s was higher Southern indirect tax rates, and for the 2000s, a general loss of cost competitiveness due to higher Southern wage rates and overhead costs more generally.

The middle (1990s) period is more complex, since two-way cross-border shopping grew as civil unrest moved to an end and more normal travel patterns were resumed. It is very unfortunate that this two-way build-up of island-wide consumer markets was again disrupted by the economic events of the more recent recession. Both sides of an international border can benefit from expanding two-way consumer behaviour. Natural areas of specialisation tend to emerge and investment in retail and wholesale infrastructure can be planned in a more stable environment.

9.4: Border consumer markets and policy

The island of Ireland is unfortunate in that the pattern of its economic activities is divided by an international border between two states that have tax systems that are not very harmonised and currencies that can fluctuate rapidly and through large margins. In recent years, as during the 1980s, the weakness of sterling relative to the Southern currency gave rise to a rapid build-up in Southern cross-border shopping in the North. It is well known that price deviations induced by exchange rate fluctuations can often take a long time to work through the economy. When sterling is weak, the immediate impact is to make Northern goods and services cheaper to Southern shoppers. Conversely, Southern goods and services are more expensive to Northern shoppers. On the island as a whole, this can appear to be a kind of zero-sum game where the South loses out and the North gains.

But the reality is more complex. Price distortions induced by exchange rate fluctuations can endure for some years, but the impact eventually decays and price equilibrium is re-established. In the North a weak sterling tends to drive up the sterling-denominated price of imports from the euro zone, where such imports are often essential inputs into Northern production and service activities. Inflation in the state with the weaker currency tends to be higher than inflation in the state with the stronger currency. Eventually, the Northern price competitiveness advantage is eroded.

Table 9.15: Corporation tax revenue lost due to cross-border shopping

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimate of Cross Border Shopping</th>
<th>Estimate of Corporation Tax Revenue Lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 - lower estimate</td>
<td>€210 million</td>
<td>€9 million</td>
</tr>
<tr>
<td>2007 - higher estimate</td>
<td>€340 million</td>
<td>€15 million</td>
</tr>
<tr>
<td>2008 - lower estimate</td>
<td>€380 million</td>
<td>€15 million</td>
</tr>
<tr>
<td>2008 - higher estimate</td>
<td>€520 million</td>
<td>€24 million</td>
</tr>
<tr>
<td>2009 - lower forecast</td>
<td>€450 million</td>
<td>€20 million</td>
</tr>
<tr>
<td>2009 - higher forecast</td>
<td>€700 million</td>
<td>€31 million</td>
</tr>
</tbody>
</table>

Source: CSO data and Revenue calculations.
Meanwhile, Southern consumers gain access to cheaper goods and services. However, the Southern tax base is eroded to the extent that consumption activities take place in the North. If the Southern Government attempts to increase taxes to make up for any revenue shortfall, this will serve to increase cross-border shopping even more, if the increases are implemented through indirect, or expenditure, taxes. Indeed, the ESRI report of 1988 showed that cutting Southern taxes could be self-financing, since it would encourage increased domestic consumption at the expense of cross-border purchases. It is now well established that indirect tax rates in the South cannot deviate too much from Northern rates without triggering a cross-border shopping reaction.

The major distorting force that drives Southern and Northern consumer prices apart is the exchange rate. This was a major concern when the question of whether or not the South should join the euro zone, even in the absence of the UK, was considered in 1996 (see Baker (ed.), 1996). A parallel study of the impacts of the euro decision on the North was carried out in 1998 by the Northern Ireland Economic Council (Bradley, 1998). In the ESRI study, the scenario where the South joined but the UK did not gave rise to considerable concern, since it had the potential for serious disruption to retail operations in the South. Fluctuations in the euro-sterling rate would have serious implications for product sourcing arrangements by Southern retailers, and these are often difficult to change at short notice. Recent developments have shown just how disruptive currency fluctuations can be.

It will remain a fact of life that unless the relativities between sterling and the euro stabilise, currency fluctuations will continue to disrupt consumer markets on the island of Ireland. All previous studies have shown that these disruptions are far more serious the nearer one is to the border. In the absence of any feasible policy actions to remove or reduce the disruptions, policy makers in the South have sometimes resorted to a ‘call to patriotic action’, asking Southern consumers to refrain from cross-border shopping. The then Minister for Finance, Brian Lenihan, said on RTÉ in October 2010:

> When you shop in Northern Ireland, you’re paying Her Majesty’s taxes, you’re not paying taxes to the state that you live in.

Such exhortations are seldom effective, and are usually counter-productive.

Since the sterling and euro exchange rates are determined in global markets and are not directly controlled by Irish and UK policy makers, the role of policy on the island should be to mitigate any adverse impacts of currency fluctuations. The South, as a small member of the euro zone, and the North, as a small member of the sterling zone, need to look elsewhere. Previous studies of cross-border shopping suggest that the forces of competition can operate weakly. For example, in the South there was a tendency to react to a weak sterling by taking higher profit margins (CSO, 2010). The national wage agreements in the South generated wage push that led to a serious loss of cost competitiveness. Unless these kinds of challenges are addressed, exchange rate fluctuations will continue to be disruptive, and their effects will tend to last longer than necessary.

The consolidation of the Northern peace process, combined with the reality of the Single European Market, are longer-term factors that will serve to offset the short-term price fluctuations caused by exchange rates. Here, the developments in the Polish-German border are informative. The initial opening of the border to cross-border shopping led, initially, to the establishment of informal markets to serve the inflow of wealthier German customers who sought the benefits of lower Polish prices. But German retail establishments reacted, German prices became more competitive, and a two-way trade started to build up that served to strengthen the border consumer markets on both sides.

There is a danger that Northern border regions will focus on serving the narrow, transient cross-border market in eras of lower Northern prices, and fail to strengthen and deepen these markets in a way that would make them less vulnerable to reverses in relative currency strengths. It would be unfortunate if, in the pursuit of short-term gains, border consumer markets remained at the stage of ‘trading posts’, dealing mainly in supplying mass consumer goods to transient visitors motivated by large price shifts generated by currency fluctuations. This applies particularly in the cases of the ‘twin’ towns of Strabane and Lifford; Derry and Letterkenny; and Newry and Dundalk. Crowds of cross-border shoppers in search of bargains are probably better than no cross-border shoppers. But the kind of
entrepôt trade, where goods are traded in border regions that have little or no connection with their actual production, is a rather limited kind of trade, and does not serve to deepen and strengthen the border economies in a stable and sustainable way.\textsuperscript{132}

\textsuperscript{132} An entrepôt is usually defined as a place where goods are stored or deposited and from which they are distributed.
Chapter 10: Producing in the border region economy

10.1 Introduction

10.1.1 The research methodology

In Chapter 8 we explored the structure of the cross-border region in terms of the individual county as the unit of analysis in the South. County-level data were not available for the North, and the data that are available at the level of the twenty six District Councils do not provide much by way of information on the structure and performance of their local economies. At this level of analysis – i.e. Southern counties and Northern District Councils – and using officially published data sources, we were only able to examine broad features of production, and of manufacturing in particular. However, even in the cases of the Southern counties, it is not possible to go down to any sub-sectoral disaggregation of manufacturing at the county level due to confidentiality issues with the CSO data. All that one can do with officially published data sources for the South is study the broad sectoral characteristics of aggregate manufacturing and some sub-sectors of market services in terms of gross value added (GVA) generated at the county level, employment, productivity, and some other structural characteristics such as the share of the wage bill in GVA (a measure of the degree of sophistication and modernity of the sector). Even this level of analysis is not possible for the North. Our previous work took this analysis, based as it was on officially published data, as far as it can go.

Because of the relatively low population density in the border region and the absence of any very large urban centres with third level education establishments, many border region business activities are small in scale and often found in the more ‘traditional’ areas of production (e.g. food and beverages, clothing, footwear, furniture, basic metalworking, etc.). When there are sectors in what are commonly regarded as ‘modern’ or ‘high technology’ areas, such as computers and pharmaceuticals, these are often producing products that are at the older stages of the product life-cycle. Even then, they are often engaged in the older and/or more routine stages of production or assembly, where skill requirements can be modest and innovation largely absent. Indeed, in more remote geographical areas production units often fall below the threshold of conventionally defined small and medium sized enterprises (or SMEs). Particularly in the cross-border area, many businesses are micro-enterprises with under 10 employees (bakeries, other food products, guest houses, trades of various kinds, craft enterprises, etc.).

The research reported in this chapter is designed to examine the continuing barriers to, and explore new opportunities for, the expansion of production enterprises in the post-conflict border region. Given the relatively limited state of officially published data at this sub-regional level that we documented previously, and the complete absence of official CSO county data at the level of individual production units, previous research in this area has been very restricted in its scope and methodology. To overcome these barriers, our work draws on a proprietary database of information on individual business units (the so-called FAME database described in the previous chapter), and is augmented by field work designed to provide additional qualitative information on businesses located in the border region. This is an area where we try to break new ground in research on the economy of the border region.

Our approach is executed using the analytical guidance and insights of the most up-to-date research on industrial economics. Micro-enterprises, such as those which tend to be located in peripheral regions, often fall below the ‘radar’ of business groupings like the IBEC, CBI (and their cross-border Joint Business Council) and ISME, whose focus is on larger businesses. Yet micro-enterprises, and a regional micro-enterprise ‘culture’, is likely to be an essential part of much of the revival

133 The product life-cycle was described in Chapter 5 in connection with industrial policy frameworks.
134 In the South, Enterprise Ireland defines a ‘small’ enterprise as one that has fewer than 50 employees and has either an annual turnover and/or an annual balance sheet total not exceeding €10m. A ‘medium’ enterprise is defined as an enterprise that has between 50 and 249 employees and has either an annual turnover not exceeding €50m or an annual balance sheet total not exceeding €43m.
135 FAME (Financial Analysis Made Easy) is a financial information database of individual UK and Irish companies updated daily with up to 10 years of data.
136 See Best (1990) ; Best (2000); Best (2001); Best and Bradley (2006).
of economic activity in the border region and – more generally – in rural areas throughout the island economy. Such micro-enterprises tend not to initiate regional development in isolation, but feed off the growth of larger scale activities that are usually located in or near the larger urban population concentrations. The special historical circumstances of the border region impose severe constraints and barriers on the growth of locally based micro enterprises.

Our research approach is anchored at the level of individual enterprises and on interviews with a carefully selected set of local business people. We focus on the special characteristics of the people involved in such enterprises, and the support facilities that they require to succeed, in the context of a good understanding of the specific characteristics of the border region. In other words, we move beyond the use of impersonal and ‘arms length’ questionnaires, since it is well known that response rates to such surveys are poor, insights are limited, and conclusions can often be partial and distorted. Our aim is to look at a sample of individual businesses and their immediate business environment in order to find out how small business activities in the cross-border region might be encouraged to set up and eventually expand by exploiting increased access to larger cross-border markets.

Ideally, one would have to pay particular attention to comparing the experiences of enterprises in the border region with those of successful small ‘niche’ producers (for example, specialist producers in areas such as cheese-making, meat and fish products, confectionery and high-fashion clothing) in similar mainly rural areas away from the border (e.g. in the west of Ireland). In this way one could try to identify the particular barriers and opportunities posed by their location in the border area, with its peripherality, disruptive currency fluctuations, administrative and legal fault lines and the initially lower but gradually improving level of tourism-related activities.

However, such investigations need to go beyond an exclusive focus on small enterprises, since the cross-border region is characterised by a range of different types of enterprises. Close to the three largest cities or towns located on or near the border (Derry, Newry and Dundalk) there are modest clusters of medium-sized foreign and indigenous enterprises, attracted by the available workforce and the third level educational institutions in or near these towns. In addition, in the range of smaller border towns one also finds the phenomenon of the ‘one industry town’, where one firm (often a foreign owned branch plant) dominates that town’s economy. Finally, one finds a range of enterprises whose characteristics are often determined either by the presence of a local entrepreneur/manager or by links to larger firms in the area. While we do not have the resources to carry out a comprehensive, region-wide survey, we identify and interview some typical examples of these categories and try to draw region-wide conclusions.

For example, we make a careful selection of a small sample of firms mainly in the border region, but including firms outside the region if they exercise important influences on the border regional economy. We also use the two Southern counties – Galway and Mayo – as examples of regions that are removed from the immediate border area, but which have many of the distinct characteristics of the border counties, i.e. peripherality, low population density, differing access to higher education establishments, etc. Our interviews are conducted with top management, usually the owner of the firm or very senior management. We seek to be conducted through the plants in order to be able to evaluate the details of the production technology, the level of senior staff expertise, the broad strategy of the firm, how its management viewed its competitive advantage in their sector, and the kinds of collaborative networks in which the firms are embedded. We then reclassify the firms into groups that are more useful to study the potential for growth and development in the border region. We try to analyse smaller enterprises within populations of companies, some of which may have the potential to become growth poles or magnets. Local education and other business support institutions are clearly critical factors to setting a local growth motion. The border region may not be as well endowed with higher education institutions as the larger centres of population on the island, but an understanding

137 See O’Grady (2009) for an examination of the case of Allergan, the largest plant in the town of Westport, Co. Mayo.
of what is there and the identification of a local business and education leaders will be vital to success.

In addition to studying what we might term the ‘business strategy’ of the firm, we are also interested in a range of key facts about the firm, e.g. What proportion of the workforce commute across the border daily? What proportion of raw materials are sourced from across the border? Does the firm draw on services from across the border, e.g. accounting, other financial, legal and stationery, either regularly or occasionally? Is there any evidence of ownership/investment being from across border either partially or entirely?

10.1.2 The structure of the chapter

This chapter is structured along the following lines. In Section 10.2 we describe the FAME database of individual firms in Ireland and the UK and show how it can be used to examine the structure of enterprises in the border economy. This takes the more aggregate production analysis of our earlier work to a far more detailed, enterprise-focused stage. In other words, we are able to examine the configuration of production units in each border country in a way that helps us understand why the aggregate performance at the national (South) or regional (Northern Ireland as part of the UK) level – as published, for example, in the Southern Census of Industrial Production – can differ significantly from county to county within these larger, encompassing territories. We are also able to identify degrees of county-level specialisation that will assist us later, when we select a small sample of individual firms for more detailed investigation.

In the kind of work that we are undertaking in this report, there is always a strong temptation to avoid academic research frameworks and stick to pragmatic data description and observation. This is a very understandable reaction to the often excessive use of theory and econometric modelling that tends to be used in academic work in economics. But the abandonment of all theoretical schemas and explanatory frameworks also causes problems. When trying to understand how individual firms and clusters of firms spread out across space, useful and appropriate data are hard to come by, and even when data are available, the facts seldom speak clearly for themselves. The ingredients of good research tend to demand a judicious blend of appropriate data and appropriate theoretical frameworks. At the level at which we wish to study the border region (i.e. the level of individual firms and clusters of firms as well as the wider regional economies), we saw that good data are hard to come by. And even when such data are available, it is not always clear how the data can be best used to gain insights into underlying development processes. In addition, appropriate theoretical or explanatory frameworks do not always present themselves in an unambiguous way. The manner in which academic researchers carve up the real world in order to study it does not always coincide with the challenge that faces researchers trying to understand specific and complex situations where the really difficult issue is the nature of the appropriate questions to ask, rather than the quality and utility of the answers that might eventually emerge from the research. The frameworks that we have in the background have been described in Chapter 5.

In Section 10.3 we describe how we conducted a small-scale, detailed audit of business organization within the border area, based on a series of factory visits to a representative sample of firms covering a range of sectoral activities. The visits to firms were organized so as to obtain the ‘hidden’ story of how firms are performing and with a view to recommending policies that will enhance the business environment. We embarked on these firm visits with open minds but also with a detailed set of questions, in order to elicit certain basic facts. We wished to explore company directors’ general views on the current conditions facing the company (strengths, weaknesses, opportunities and threats) and strategy to improve performance. This included the directors’ views of the distinctive capability or ‘concept’ of the company that would be the source of the company’s profitability in the future. Also, which companies set the ‘standard’ in the company’s industry, from which others learn in order to compete?

In addition, more specific issues were covered during the factory visits: for example, information on what the company uses to measure performance. Does the company have indicators of quality, ‘inventory turns’, industry-specific technical specifications such as size tolerances of parts in metal working or furniture making? Are there any non-production management or staff positions doing scheduling,
quality control, machine set-up, maintenance, etc., relative to production activities that change the material and thereby add value? Does the company have a production improvement programme? Does the company have access to benchmarks to assess performance? We looked for information on skill levels and skill upgrading programmes; on business partners including suppliers of parts, distributors and retailers; on trade associations and sources of technical consulting expertise; on transportation, communication, and standard-setting infrastructure; and on product design, R&D capabilities and marketing strategy capability. While these case studies cannot tell the whole story of production capabilities in the border economy, nevertheless they serve as indicators of how firms deal with the unique environment created by the border, and assist in identifying possible ways in which the performance of the border economy might be improved.

Section 10.4 concludes and attempts to draw up a series of realistic and relevant policy recommendations based on the evidence presented in the report. Given its many disadvantageous regional characteristics – peripherality, low population density, limited production base, few higher educational establishments, small entrepreneurial class – there is a temptation to paint an excessively pessimistic picture of the border economy. Nevertheless, the structure of the enterprise sector at a full level of sectoral and spatial disaggregation. These are the KOMPASS database138 and the FAME database139. The KOMPASS database is designed more for marketing mail-shot use than for business research. The FAME database is set up to provide detailed data, admittedly of varying quality and completeness, on the activities of every business registered in the UK and Ireland. For this reason, we chose to use FAME.

As described in the previous chapter, FAME contains the following kind of company data:

- Basic descriptive information: Company name, previous company name(s), registered number, registered office address, phone, web address, primary and secondary SIC codes, brand names and major sectors, US SIC, NAICS and NACE codes, standard peer group
- Quantitative information: Annual turnover, number of employees, etc.
- Audit information: Bankers, auditors, previous auditors, audit details including indicators of qualified/unqualified accounts, a post balance

There are many proprietary databases that provide information on individual businesses or on selected groups of related businesses. However, only two databases provide anything like what is required to examine the structure of the enterprise sector at a full level of sectoral and spatial disaggregation.

138 For KOMPASS, see http://ie.kompass.com/.
139 For FAME, see http://fame.bvdep.com/version-2011421/cgi/template.dll?product=1.
sheet event, audit exemption and contingent liabilities.

Although FAME lists all enterprises, including manufacturing, services, agriculture, construction, and utilities, we are primarily interested in the manufacturing sector. In this section we do not use the full level of SIC disaggregation. Rather we use a division of manufacturing into 22 sub-sectors, listed in Table 10.1 below.

**Table 10.1: SIC (2003) broad sub-sectors of manufacturing**

<table>
<thead>
<tr>
<th>SIC Code</th>
<th>Description of Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-30</td>
<td>Food Products, Beverages, Tobacco</td>
</tr>
<tr>
<td>17</td>
<td>Textiles</td>
</tr>
<tr>
<td>18</td>
<td>Clothing</td>
</tr>
<tr>
<td>19</td>
<td>Leather &amp; Leather Products</td>
</tr>
<tr>
<td>20</td>
<td>Wood &amp; Wood Products (except Furniture)</td>
</tr>
<tr>
<td>21</td>
<td>Pulp, Paper &amp; Paper Products</td>
</tr>
<tr>
<td>22</td>
<td>Publishing &amp; Printing</td>
</tr>
<tr>
<td>23</td>
<td>Coke &amp; Refined Petroleum</td>
</tr>
<tr>
<td>24</td>
<td>Chemicals &amp; Chemical Products</td>
</tr>
<tr>
<td>25</td>
<td>Rubber &amp; Plastic Products</td>
</tr>
<tr>
<td>26</td>
<td>Other Non-Metallic Mineral Products</td>
</tr>
<tr>
<td>27</td>
<td>Basic Metals</td>
</tr>
<tr>
<td>28</td>
<td>Fabricated Metal Products, except Mach.</td>
</tr>
<tr>
<td>29</td>
<td>Machinery &amp; Equipment, nec</td>
</tr>
<tr>
<td>30</td>
<td>Office Machinery &amp; Computers</td>
</tr>
<tr>
<td>31</td>
<td>Electrical Machinery &amp; Apparatus (nec)</td>
</tr>
<tr>
<td>32</td>
<td>Radio, Telecommunication Equipment</td>
</tr>
<tr>
<td>33</td>
<td>Medical, Precision &amp; Optical Instruments, Clocks</td>
</tr>
<tr>
<td>34</td>
<td>Motor Vehicles, Tractors &amp; Semi-truck</td>
</tr>
<tr>
<td>35</td>
<td>Other Transport Equipment</td>
</tr>
<tr>
<td>36</td>
<td>Furniture &amp; Manufacturing nec</td>
</tr>
<tr>
<td>37</td>
<td>Recycling</td>
</tr>
</tbody>
</table>

For example, if we wished to look at sub-sector SIC-31 (Electrical Machinery and Apparatus nec) in much more detail, we could extract further detail of the kind shown in Table 10.2.140

An initial examination of the Southern and Northern data in FAME suggested that data for all possible FAME variables were seldom published. Fields were often left blank: for example, data on annual turnover and numbers employed. In view of the limitations of the coverage, we opted to extract a small subset of all possible variables, and these are listed in Table 10.3 below.

**Table 10.3: List of company variables extracted from FAME**

Since we had complete control over the geographical location of firms, we carried out data extractions for the entire eleven border counties previously listed in the report on Topic 1. In addition, we included five extra non-border counties in the South and the

remaining county in Northern Ireland (Antrim). The complete list of counties extracted is shown in Table 10.4.

Table 10.4: Counties for which FAME data were extracted

<table>
<thead>
<tr>
<th>County</th>
<th>County</th>
</tr>
</thead>
<tbody>
<tr>
<td>South NI</td>
<td>Louth Down</td>
</tr>
<tr>
<td>Monaghan</td>
<td>Armagh</td>
</tr>
<tr>
<td>Cavan</td>
<td>Fermanagh</td>
</tr>
<tr>
<td>Leitrim</td>
<td>Tyrone</td>
</tr>
<tr>
<td>Sligo</td>
<td>Derry</td>
</tr>
<tr>
<td>Donegal</td>
<td>Antrim</td>
</tr>
<tr>
<td>Dublin</td>
<td>Cork</td>
</tr>
<tr>
<td>Limerick</td>
<td>Galway</td>
</tr>
<tr>
<td>Mayo</td>
<td></td>
</tr>
</tbody>
</table>

The Southern and Northern border counties are in bold. The remaining counties were extracted for the following reasons. Dublin, Cork, Limerick and Galway are the four largest Southern cities and these urban agglomerations are known to exercise a major influence on the entire Southern economy. Antrim includes most of the Belfast metropolis, and was extracted for the same reason. Mayo, on the other hand, was included as an example of a peripheral Southern county that was not in the border area but which shared some of the characteristics of the more rural border area counties and could be used as a test case to explore how important an influence the border location actually was.

10.2.2 Manufacturing enterprises in the border counties

In the following set of tables we show the data for manufacturing in all of the border counties, with the extra counties also included, where the data were extracted from FAME. We repeat the cautions made previously concerning the fact that the database is made up of companies whose returns can be up to two years out of date. Consequently, it will not include the full impact of the severe contraction that accompanied the recession that hit both the South and Northern economies from 2008.

Before presenting our analysis of these data, we need to stress that the Irish ‘county’ is not always a very logical unit of spatial analysis. For example, there may be a small county that has a low rate of urbanisation. If this is isolated from other, larger, more urbanised counties, it is likely to display certain characteristics associated with its peripherality. But if it adjoins such a county, its characteristics are likely to mirror or resemble those of the adjoining county, particularly if there are good communication links between them. Although counties do not always have distinctive economies, the unit of ‘county’ is still useful when studying the border region, since it permits us to zero in on separate parts of the border region that appear to have rather different structural economic characteristics. Nevertheless, the county, or the District Council area in the North which is even smaller, is seldom the unit that should be used when developing economic strategy.

A second issue concerns the fact that, using FAME, we can at best examine the number of individual manufacturing companies in any specific region and identify fairly precisely the type of product manufactured by that company. However, the firm could be big or small, in the sense of having a large annual turnover and/or a large number of employees. Unfortunately, the turnover and employment data are largely missing from the Southern and Northern FAME database. So we are constrained to use just the number of firms. It should also be realised that some companies could be classified under a series of different SIC codes. For example, FAME classifies Bose, a Carrickmacross-based multinational concerned with assembly of high quality audio equipment under SIC 36, i.e. furniture. As we will describe below, the Bose plant does indeed process wood and produces high quality cabinets for audio equipment, so in a certain sense it makes ‘furniture’. But it would be more correctly classified under SIC 32 (Radio, Television and Communication Equipment). Consequently, our analysis needs to be interpreted with care.

The Northern border counties

Table 10.5 (see page 151) contains the data on manufacturing for the five Northern border counties, plus Antrim. We also include data on county population and on population density (in terms of people per sq. km.). But we first wish to describe the manufacturing data, and will return later to deeper structural analysis.
The two extremes in terms of the role of manufacturing are county Fermanagh, a largely rural county whose territory is subdivided by upper and lower Lough Erne, and county Down, a very urbanised county containing the third largest city in the North at its southern end (Newry); the largest city in the North just beyond its northern end (Belfast); and a number of moderately sized towns in between. The small number of manufacturing firms in Fermanagh (62) reflects its rural character. Down, on the other hand, has a larger and more diversified manufacturing sector, containing 473 firms. For the remaining three border counties, they are ranked in terms of population from the smallest (Armagh, 127,000), to the largest (Derry, 212,000), with Tyrone (at 158,000) being an intermediate case. But Armagh and Derry have approximately the same number of manufacturing firms (283 and 286, respectively), and Tyrone has the highest number (349). Antrim, the Northern county with the largest population and highest level of urbanisation, has the largest and most diversified manufacturing sector.

To examine the intra-county structure of manufacturing, we show in Table 10.6 (see page 152) the percentage of the total manufacturing firms in each county that are classified into each of the twenty one broad SIC two-digit sub-sectors. To the limited extent to which it is meaningful to talk about the ‘economy’ of each county, Table 10.6 points to different specialisations within each of the Northern counties. The least urbanised county – Fermanagh – has the highest degree of specialisation in the more ‘traditional’ sectors of SIC 15–16 (Food and Beverages); SIC 20 (Wood and Wood Products), and SIC 26 (Other Non-metallic Mineral Products – including pottery and building material). These three SIC groups make up 55 per cent of the total of 62 firms in Fermanagh. In the case of Antrim, they make up only 18 per cent of the total of 1,021 companies. On the other hand, the Fermanagh manufacturing base has only 6.5 per cent of firms in SIC 28 (Fabricated Metal Products, except Machinery and Equipment), all of them probably very small, while all the other Northern counties have almost double that share.

It is interesting to note that all six Northern counties have a high concentration of companies in SIC 15–16 (Food Processing, Beverages and Tobacco), while the three tobacco plants in the North are all located in Antrim. This suggests a lack of regional specialisation that may be driven by the fact that the Northern counties – including Antrim – all have relatively low population densities by UK standards, i.e. they all contain large rural areas as well as some urban agglomerations.

The two sectors SIC 17 (Textiles) and SIC 18 (Clothing) were major areas of specialisation in Northern from the mid-19th century up to the onset of civil unrest in the late 1960s, and then entered a period of sharp decline. Derry had a particularly dense cluster of such companies, and even today retains a slightly higher share of companies in these sectors relative to the other Northern counties (8 per cent, against 7 per cent in Armagh, 6.2 per cent in Down, a similar share in Tyrone and Antrim, and a low of 1.6 per cent in Fermanagh).

**Figure 10.1: Shares of ‘modern’ manufacturing in Northern counties (% of total)**

One can define a group of ‘modern’ or ‘high technology’ companies in terms of SIC 24 (Chemicals and Chemical Products), SIC 28 (Fabricated Metal Products, except Machinery and Equipment), SIC 30 (Office Machinery and Computers), SIC 31 (Electrical Machinery and Apparatus nec) and SIC 33 (Medical, Precision and Optical Instruments). One would expect that the largest concentration of such activities would be in Antrim, due to the large urban centre of Belfast. This is indeed the case, and the results are graphed in Figure 10.1. Antrim has share of about 37 per cent. The share of Derry, which is the next largest urban centre, is lower, at about 20 per cent, a very similar share to that of Down. As might be expected, Fermanagh has the lowest share, at 11.3 per cent. This is the kind of distribution that one might expect, considering the relatively high population density in Antrim, Down and Derry.
The Southern border counties

We turn now to the six Southern border counties, plus Mayo, and the four largest Irish urban agglomerations of Dublin, Cork, Limerick and Galway. Mayo is included as a non-border comparison, since it shares the peripherality of much of the border, is a mainly rural county, and has no higher education establishment. Using Table 10.7 (see page 153) to examine the border counties, in terms of the total number of manufacturing companies, Louth is the highest (472), followed by Donegal (326), Monaghan and Cavan with about 180, Sligo at 131, and Leitrim at 39. It is interesting to note a certain degree of cross-border symmetry between adjoining Southern and Northern counties. For example, Down and Louth have about the same numbers of manufacturing companies and similar population densities (136 per sq km for Louth and 168 for Down). Leitrim and Fermanagh have broadly similar characteristics in terms of low number of companies and low population density.

Using Table 10.8 (see page 154), it is seen that Louth has the largest manufacturing sector in the Southern border region, in terms of numbers of companies, and the most diversified structure. But what is most surprising is that the group of sectors that we defined as ‘modern’ or ‘high technology’ above (SICs 24, 28, 30, 31 and 33) have broadly similar shares across all border counties and Mayo, as shown in Figure 10.2. One possible explanation for the relatively high shares of ‘modern’ manufacturing in counties as rural as Leitrim (population density 18.2 per sq km) and Cavan/Sligo/Donegal (population density about 30 per sq km) is that a dispersed national development strategy of attracting FDI had been pursued by the South’s Industrial Development Authority (IDA) for many decades, and the smaller foreign plants were often directed towards more peripheral counties, when this was possible. However, it should be recalled that we are simply counting companies, and on this basis a small company is equivalent to a large one. Evidence shows that the larger companies, in terms of numbers employed, tended to be attracted to the larger centres of population with their more advanced services, communications infrastructure, and higher education establishments.

141 There is an extension of the Galway-Mayo Institute of Technology (GMIT) located in Castlebar, but it has only a small range of courses.
delve more deeply into the nature of the border economy and the manner in which individual firms set up, grow or decline. But some strong patterns do emerge from the FAME data, and are summarised in Table 10.9 (see page 155) for the North and South combined.

In Table 10.9 we have calculated the number of manufacturing companies per thousand of the population. If this ratio is high, it indicates that the environment is very supportive of company formation. If the ratio is low, it suggests that the area is less supportive of company formation. Here, the use of the number of companies is appropriate, since a large number of companies suggests a degree of entrepreneurship, particularly if the companies interact with each other and form what we may call ‘entrepreneurial industrial district’ (see Best, 1990, p. 206). Of course, if a region has a high number of companies per unit of population, it is not always a sign of development strength. However, below we will describe a situation of a cluster of small companies in the furniture sector which appears to suffer due to the lack of much interaction between the individual firms.

Even a cursory examination of Table 10.9 shows that the number of companies per thousand of the population in the North is lower than all of the Southern counties shown, except for Counties Leitrim and Mayo. In the case of the North the value ranges from a high of 2.2 for Armagh to a low of 1.0 for Down. In the case of the South, the value ranges from a high of 4.7 for Dublin to a low of 1.3 for Leitrim (a border county) and 1.0 for Mayo (a non-border, peripheral county). There are many possible explanations of these patterns. For example, the fact that Down has only 1.0 companies per thousand of population compared to Armagh, which has 2.2, might simply result from Down having larger companies on average than Armagh. Nevertheless, the actual number of companies is indicative of entrepreneurial activity. If a region lacks entrepreneurship, one would expect it to import goods and to have a limited diversity of manufacturing sectors.

An obvious hypothesis might be that, other things being equal, regions with a high degree of urbanisation will have a high level of entrepreneurship and high company formation. But the Northern data are not consistent with this hypothesis. Tyrone, with a population density as low as 50.2 per sq km, has 2.2 manufacturing companies per thousand of its population. This is actually higher than the case of Antrim, with its highly urbanised population (density 216.7 per sq km), but only 1.7 manufacturing companies per thousand population. And Tyrone, with a population density much lower than Armagh (50.2 compared to 101.1 per sq km), actually has the same number of manufacturing companies per thousand of population (2.2 in each case). It is surprising to note that Fermanagh, with its very low level of urbanisation compared to Derry, actually has much the same ratio of manufacturing companies per thousand of population (1.1 compared to 1.4). The scatter diagram Figure 10.4 shows the general lack of any relationship between the number of manufacturing companies per thousand of population and the degree of urbanisation.

Turning to the case of the South, Table 10.9 suggests a much closer relationship between the number of manufacturing companies per thousand of population and the degree of urbanisation. However, Dublin, with its very high population density (1,289 per sq km) and its 4.7 manufacturing companies per 1000 of population, is an outlier and is excluded. For the remaining six border counties, Mayo, and the other three large urban centres (Cork, Limerick and Galway), there is a fairly regular relationship. The higher the degree of urbanisation, the higher the number of manufacturing companies per unit of population.
10.2.4 Concluding remarks on the FAME-based analysis

Once we began to examine the county-level FAME database, some interesting insights emerged. For example, it was fairly easy to search for county or region-specific ‘clusters’ of similar manufacturing activities using the SIC codes. In the case of the mid-border region, significant clusters of wood processing and furniture as well as food processing emerged. Many of these had deep historical roots in earlier eras. In the case of Down and Louth, manufacturing activity in high technology areas dominated, and many of these were either foreign-owned branch plants, or indigenous plants serving the foreign sector. In the case of the North-West region, there was a significant difference between the pattern of manufacturing in the Derry City agglomeration and the pattern in the adjoining mainly rural region of north Donegal.

Knowing what enterprises were present in the sub-regions of the border economy was only the start. The fact that clusters of similar manufacturing activities exist in a region does not tell you if the constituent firms are focusing on core capabilities and partnering for complementary capabilities in a way that creates an organic and highly competitive entity usually referred to as an ‘entrepreneurial industrial district’:

*A more fully entrepreneurial industrial district is one in which associations of firms along the production chain can collectively and simultaneously redesign products.*

This requires close consultation along the production chain. A fully developed industrial district would behave like a collective entrepreneur: it would possess the capacity to redesign process and organisation as well as product. (Best, 1990, p. 206)

Best was writing about the Italian region of Emilia-Romagna, a highly successful region of northern Italy consisting of many small firms producing traditional goods such as furniture, ceramics and clothing, which demonstrated that networked groups of firms, with the appropriate strategy, can prosper and be competitive even in the global market place. In isolation from each other, such firms cannot survive in modern, high wage economies, and tend to migrate to the low wage Asian countries. Of course we did not expect to find such advanced Emilia-Romagna-like behaviour in the Irish border region. But it was useful to have a best case example of regional clustering in order to calibrate how far removed business activity in the Irish region was from this standard. In the event, it proved to be very far removed.

An obvious question to pose is: Are there distinctive ‘border’ county characteristics that differ from ‘non-border’ counties? Our analysis of the Southern border county manufacturing sectors suggests that it is not the ‘border’ in itself that influences the degree and kind of manufacturing development. Rather, it is the fact that all of the border counties have very low population density, with the exception of Louth, whose population density is even higher than that of counties with large urban centers such as Cork, Limerick and Galway. Of course, it could be held that the creation of the border in 1922 led to the decline of manufacturing in the Southern border counties and that precipitated a decline in population. But this is not consistent with the well-known fact that the newly created state of what is now the South had little or nothing by way of a manufacturing base at the time of independence (Ó Gráda, 1995). High out-migration from rural counties, both border and non-border, was also a feature of life in Ireland until well into the 1970s. The process of post-1960s modernisation of the industrial base through attracting inward investment benefited the urbanised counties more than the non-urbanised ones.

The situation that we find in the North is rather different. This region was very much more heavily...
industrialised than the South at the time of partition. But over the years from 1922 to the early 1970s, the large clothing and textiles sector contracted systematically, and from the 1970s to the time of the 1998 Belfast Agreement the shipbuilding and engineering sectors also contracted or – as in the case of shipbuilding – vanished completely. Perhaps what we see today in the Northern border counties is not so much a process of industrialisation driven by urbanisation (as in the South). Rather, it may be a process of de-industrialisation, where certain counties lost out badly (e.g., Derry); others – for a variety of reasons – managed to continue many aspects of the earlier industrial economy (Down and Tyrone); while Belfast continued to benefit from its urban agglomeration and from the massive growth of the public sector and the associated market service sector that took place between 1970 and 2000. Community divisions within any given urbanised region may have reduced the ‘effective’ role of the population agglomeration in retaining existing industries and attracting new ones.

If we are correct, then the existence of the border is not the main cause of the relative under-development of the county economies that lie along the border and its immediate vicinity. The problems of the border region are due to a combination of a persisting low level of urbanisation in the region; community divisions within the North that interfered with the role of urban areas in facilitating development; and the fact that the Northern and Southern economies as a whole were following very different industrial trajectories: the former in decline from the extraordinary high degree of industrialisation of the early 20th century; the latter dealing with the challenge of industrialising a mainly rural economy from scratch.
Table 10.5: Structure of manufacturing sector in the Northern border counties: numbers of firms

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15-16</td>
<td>Food Products, Beverages, Tobacco</td>
<td>64</td>
<td>58</td>
<td>12</td>
<td>51</td>
<td>39</td>
<td>105</td>
</tr>
<tr>
<td>17</td>
<td>Textiles</td>
<td>18</td>
<td>14</td>
<td>0</td>
<td>10</td>
<td>9</td>
<td>31</td>
</tr>
<tr>
<td>18</td>
<td>Clothing</td>
<td>11</td>
<td>6</td>
<td>1</td>
<td>10</td>
<td>14</td>
<td>24</td>
</tr>
<tr>
<td>19</td>
<td>Leather &amp; Leather Products</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>20</td>
<td>Wood &amp; Wood Products (expt Furniture)</td>
<td>37</td>
<td>13</td>
<td>14</td>
<td>36</td>
<td>24</td>
<td>45</td>
</tr>
<tr>
<td>21</td>
<td>Pulp, Paper &amp; Paper Products</td>
<td>16</td>
<td>8</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>24</td>
</tr>
<tr>
<td>22</td>
<td>Publishing &amp; Printing</td>
<td>40</td>
<td>12</td>
<td>4</td>
<td>17</td>
<td>23</td>
<td>100</td>
</tr>
<tr>
<td>23</td>
<td>Coke &amp; Refined Petroleum</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>24</td>
<td>Chemicals &amp; Chemical Products</td>
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<td>6</td>
<td>2</td>
<td>7</td>
<td>10</td>
<td>74</td>
</tr>
<tr>
<td>25</td>
<td>Rubber &amp; Plastic Products</td>
<td>23</td>
<td>21</td>
<td>2</td>
<td>13</td>
<td>11</td>
<td>45</td>
</tr>
<tr>
<td>26</td>
<td>Other Non-metallic Mineral Products</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>21</td>
<td>19</td>
<td>36</td>
</tr>
<tr>
<td>27</td>
<td>Basic Metals</td>
<td>17</td>
<td>13</td>
<td>1</td>
<td>4</td>
<td>10</td>
<td>28</td>
</tr>
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<td>28</td>
<td>Fabricated Metal Products, except Machinery &amp; Equipment</td>
<td>61</td>
<td>31</td>
<td>4</td>
<td>39</td>
<td>39</td>
<td>128</td>
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<td>80</td>
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<td>7</td>
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<td>8</td>
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<td>45</td>
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<td>Radio, Television &amp; Communication Equipment</td>
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<td>0</td>
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<td>14</td>
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<td>Medical, Precision &amp; Optical Instruments, Clocks</td>
<td>9</td>
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<td>30</td>
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<td>Furniture &amp; Manufacturing nec</td>
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<td>31</td>
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<td><strong>Total</strong></td>
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<td>283</td>
<td>62</td>
<td>349</td>
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<td>1021</td>
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<td>50.2</td>
<td>102.1</td>
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<td>15-16</td>
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<td>Clothing</td>
<td>2.3</td>
<td>2.1</td>
<td>1.6</td>
<td>2.9</td>
<td>4.9</td>
<td>2.4</td>
</tr>
<tr>
<td>19</td>
<td>Leather &amp; Leather Products</td>
<td>0.4</td>
<td>0.7</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.5</td>
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<tr>
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<td>Pulp, Paper &amp; Paper Products</td>
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<td>22</td>
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<td>4.9</td>
<td>8.0</td>
<td>9.8</td>
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<tr>
<td>23</td>
<td>Coke &amp; Refined Petroleum</td>
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<td>0.0</td>
<td>1.6</td>
<td>0.3</td>
<td>0.3</td>
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### Table 10.9: The characteristics of firm formation and demographics

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### 10.3: Business case studies in the border region

#### 10.3.1 Introduction

With our limited resources and limited time, the task of setting up a series of visits to selected firms in the border region was daunting. The most difficult task that we faced in setting up these enterprise visits was literally getting in the door! Business people are always busy and not only did we wish to interview senior management and owners at considerable length, but we had a very intrusive list of questions that penetrated into the deepest areas of the firm’s operation and strategy. Field work was complicated by the nature of the research questions and time was needed to bring groups on board.

We quickly realised that postal surveys or ‘cold calling’ would not work, and were very fortunate in obtaining the initial assistance of InterTradeIreland in breaking the ice with firms in the North-East border sub-region. Assistance also came from Chambers of Commerce, and in particular the Monaghan Chamber, through the good offices of Dermot McNally of Rossmore Furniture, who enthusiastically assisted us in accessing the fascinating economy of Monaghan, an area whose manufacturing history goes back to the pre-partition era, and which still retains a specialised and distinctive character. We were also assisted by the Derry Chamber and the Letterkenny Chamber. Finally, Enterprise Ireland put us in contact with the Food Group that was working on the review of the Monaghan County Development Plan, and its chairman, Paul Shortt, CEO of Castlecool, was extremely generous with his assistance and advice. However, we stress that the content of the case study material is entirely our responsibility, as are all of our interpretations of the information gleaned from our pre-visit research on web and other sites, and from the visits themselves.

We designed an advance notice to alert the firms that we wanted to delve fairly deeply into the nature of the business enterprise and its strategic setting. An example of this notice is included below (“Talking points when contacting firms”). As was to be expected, we were unable to gain access to every firm that we targeted. In some cases the problem was simply that the selected firm had urgent activities under way and was unable to facilitate us. In others, there was a reluctance to engage with
our enquiry, an attitude that was understandable in the circumstances of the very detailed nature of our investigation. However, the visits that we were able to carry out were extraordinarily interesting, informative and thought provoking, and the senior managers who met us gave generously of their time and their expertise in a very friendly and open way. We hope that our accounts of the visits, and the lessons that we have drawn from them, go some way to repay their kindness.

Given the limited time and resources, we mainly targeted indigenous firms rather than multinational branch plants. We accepted that foreign branch plants play a vital role in directly generating jobs and indirectly sustaining activity in the region. Indeed, for many small Irish towns the multinational enterprise is the largest, or sometimes the only, significant manufacturing employer. But such plants can resemble what Jane Jacobs referred to as ‘castles in the desert’, having no organic links with other businesses other than through their direct and indirect spillover impacts. However, when we visited locally owned firms it was usually very clear that success was always traceable to gifted individuals who, sometimes against all odds, founded and developed dynamic business ventures and leveraged local resources. In some cases the state development agencies played a crucial supportive role. But in others the firms seemed to value their independence and did not wish to bend their plans to the rigid, bureaucratic rules and regulations of the agencies. The diversity of experience was surprising.
10.3.2 The individual firm case studies

Walter Watson Ltd. (WW)

Walter Watson’s father was a blacksmith with a shop next door to the small family home near Castlewellan, located about 30 km north-east of the border city of Newry. Walter, born in 1944, became a welder but after being laid off by his employer in 1967 he hired his friend and rented a facility for 25 shillings per month. Previously he had made 10 pounds 10 shillings a week and his friend only 3 pounds 10 shillings. The new business had one 13 amp plug-in facility. He began by repairing farm machinery and later moved into making farm machinery and farm buildings. He left the original site in 1974, but thirty years later, in 2004, WW bought the property he had previously rented.

He extended his product range to agricultural trailers (eventually with hydraulic hoists), transport boxes, gates and silos. His core capability was in steel fabrication and he fostered relationships in Scotland at steel mills at Ravenscraig and elsewhere with expertise in steel, including former British Steel contacts to keep a steady supply of steel plates and sheets. These relationships meant that WW could access raw materials when others in NI and the South could not and, as a consequence, WW became a steel stockholder, buying and selling steel, as well as a steel fabricator.

In 1974, WW moved from the original rented site to the present site of nine acres which included several US Army Nissan huts left over from World War Two. WW re-sheeted the huts to turn them into fabrication sites. By now WW employed ten and had three main lines of business: agricultural implements, farm buildings and steel stockholding. He built and sold hundreds of farm buildings in Scotland and the Republic of Ireland. All were pre-fabricated in WW’s facilities before shipping and erection on the customer’s land. WW had its own transport with access to roll on and roll off facilities.

WW began building round roofs and sold concrete blocks as well which turned into selling reinforcing bars for the concrete. First he purchased a steel bar re-coiler from a reinforced concrete supplier in Kent and in 1982–83 bought a reinforcement machine in Germany, followed by a chopper and a bender, and erected a small concrete building to produce steel reinforced concrete. The new reinforcing steel business was expedited when an expert from Walker Steel joined WW and brought expertise with him. This became a highly efficient cut and bend reinforcing plant which has seen a steady and high demand through the years. A new opportunity arose when a German company making overhead cranes closed its Bangor operation. WW bought all of the unsold cranes, one hundred tons of running beams and more structural steel from two other crane making companies that closed. WW then refurbished and rewired all of the cranes and added guarantees to create a market. In addition WW became an agent for Abbas Crane when Lister Crane of NI shut down. WW also hired expertise in crane making from the closing companies to complement his own skilled workers in steel fabrication.

Thus overhead cranes became a third main line of business, along with structural steel and reinforcing steel. WW continued to expand gradually in structural steel. The company was well positioned to take advantage of the building boom in the Republic of Ireland and enjoyed ten good years between 1995 and 2005 during which it consolidated its position in the industry. It had become a big enough player to win big, if not huge, contracts. A steel fabricator has to obtain a certain size and have a track record to tender for big contracts and the ten years of growth in the South between 1995 and 2005 did this for WW. An example of a big contract was one for 1300 tons for a new FG Wilson building.

Although WW had become the largest privately-owned structural steel fabricator in NI and the largest CARES approved reinforcement fabricator within the whole of Ireland, it still was not big enough to tender for the project to extend Dublin Airport’s Terminal 2. The main contract was for 1.2 billion euro and to bid for the structural steel element of the contract a company needed to have sales of 100 million euro. Only McNamara was big enough for the job on its own.

Inter-firm networking in the construction industry is considered nearly a requirement in order to alleviate the enormous costs of bidding for contracts. Mid-size companies do not have the scale necessary to hold in-house expertise in the range of disciplines required for successful application, and hiring consultants is extremely costly. In this case, WW joined with several other steel fabricators to put in
a bid and got the job. This meant convincing the partners in the tender that WW could do the pile cages.

This presented a new challenge in both plant and product. To meet the challenge WW built a new green-field site that was up and running in three months. WW had diggers but rented a crusher to produce rocks and make 11 thousand tons of concrete. The opportunity arose to observe a state-of-the-art plant to cut and bend steel, including a pile cage machine, under a contract to O’Rourke Civil Engineering Ltd, commissioned by BAA as an emergency backup facility in the construction of Terminal 5 at Heathrow. BAA, after the construction was completed, auctioned the equipment in a sealed tender for which WW bid and won. It then sold 35 per cent to an Australian company and put the rest into WW’s new plant in Castlewellan. The layout of the new facility and its organization were assisted by an expert who had worked for Bilfinger Berger, the Frankfurt-based, industry leading specialist piling company.

The timing was perfect for supplying the contract for the extension of Terminal 2 at Dublin Airport. This job put Walter Watson Ltd on map for reinforcement steel. The next opportunity was supplying pre-engineered structural steel for a segment of the M1 motorway connecting Dublin and Belfast. This included the fabrication of pile cages for the piling in the construction of interchanges along the motorway.
WW has continued to develop and grow up to the present with annual sales approaching £30 million and one hundred and eighty employees, setting an extraordinarily high productivity level. According to the FAME database, it is the largest indigenous manufacturing enterprise and the 41st biggest manufacturing enterprise overall in County Down and 103rd biggest overall in Northern Ireland. Besides becoming the largest privately owned structural steel fabricator in Northern Ireland, and the largest cut-and-bend concrete reinforcement fabricator in the whole of Ireland, WW is estimated to have 80 per cent of the Irish overhead crane market over the past ten years and is one of the top three crane manufacturers in the UK.

While in the last two years the share of WW’s sales originating in the Republic of Ireland has declined from 60 per cent to 45 per cent, sales in Scotland have filled the gap, and the company currently has thirty six projects underway including warehouses, stores, and schools.

**Crossgar Meats**

Crossgar Poultry was founded by Gerald Bell in 1959. The company has always produced, sold and distributed under its own brand name to the food service market in which it is the leading poultry supplier in Northern Ireland. The food service market, as distinct from consumer retail or supermarket,

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142 The 40 manufacturing enterprises in the FAME database for County Down with higher turnover or employees than WW are all divisions of holding companies with head offices outside of Northern Ireland.
has always been the company’s focus and its only market. The food service market refers to hotels, restaurants, schools, hospitals or institutions such as the Irish army. Gerald Bell’s background in poultry was leveraged by control of the primary process of poultry production on the company’s own farms.

Gerald Bell’s son, Paul, became a butcher and in 1981 established Crossgar Meats as an independently governed business unit using the Crossgar brand name. The two business units were independently managed and operated at different sites, but both followed the same vertical integration business model in which the primary process was closely controlled and sales were limited to the food service market. Crossgar Meats has maintained a state of the art factory that applies full traceability beyond the factory to the rearing of all of the animals. Crossgar Meats’ focus on locally reared meats is emphasized by the Dexter beef range, a traditional Irish breed that are traditionally raised in small herds which are hard to source and not tractable to large scale beef operations.143

A third business unit, Crossgar Foodservice, was established to offer both poultry and meat products in 1987.144 This was the first step toward a new, one-stop business strategy. Crossgar Foodservice became the sole all Ireland distributor for 3663, the UK’s leading foodservice company. This agreement made it possible for Crossgar Foodservice to offer not only poultry and meats, but the full range of food items so that customers could be supplied by a single vendor and a single delivery. It meant building a 120,000 square foot depot and what has become a fleet of sixty vehicles to make next day deliveries anywhere on the island of Ireland. Today Crossgar Foodservice has a telephone sales team that takes orders up to 8:30pm for next day deliveries anywhere on the island as early as 7am.

The alliance with 3663, a £1.2 billion turnover UK food service distributor, gave Crossgar Foodservice a full range of products, including non-food kitchen items.145 But perhaps equally important, it gave Crossgar Foodservice the scale required to go directly to local suppliers of fresh fruits and vegetables and build up a local supply base (over £3 million). Given the difference in scale and focus between Crossgar Foodservice and 3663, it has not been deemed a threat to the giant UK based company. 3663 benefits from sales of ingredients, frozen foods, non-food items and equipment through Crossgar’s distribution channel. Besides taking orders, the telephone sales staff have two other functions. The first is to provide technical information to chefs. This has turned into the provision of a technical manual with the assistance of a local university. Second, sales representatives can get estimates of forthcoming orders, particularly large orders to facilitate forward scheduling. Consequently, Crossgar Foodservice has become a distribution and sales channel for hundreds of small farmers which are themselves organized into cooperative sales organizations. This links some 3000 customers, 20,000 deliveries per month and thousands of small farmers around a business model that heralds local produce.

The business model has worked. Crossgar Foodservice has grown at twenty per cent over four of the past five years to employ two hundred and fifty and achieve £40 million in sales. The company’s short term goal is to achieve £50 million in sales.

**FM Environmental Ltd**

FM Environmental was founded by Eamonn Fitzpatrick and Tom McAteer in 1988 with the merger of Fitzpatrick Systems, which had been founded in 1977, and PWS (Public Work Services) established in 1960 as a pump and waste water treatment company. In fact, Fitzpatrick had previously worked for McAteer at PWS, but Fitzpatrick, along with Kevin Morgan and Michael McGovern, left PWS in 1977 and set up three small companies in two shared offices. Fitzpatrick focused on sewage treatment, Morgan on steel fabrication, and McGovern on road marking and signage. But eleven years later, Fitzpatrick and McAteer, following the dissolution of PWS, formed FM Environmental and focused on waste water treatment contracts.

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143 The Company’s website states: “In order to ensure a consistent supply for our customers we have signed an exclusive deal with The Dexter Society in Ireland”.
144 At present, Crossgar’s seven member board of directors is made up of four external managers and three family members, each of whom is a managing director of a separate unit.
145 3663 is a trading name of the BFS Group. BFS Group is a wholly-owned subsidiary of Bidvest Group, a South African registered company.
Today FM Environmental is run by Kevin Fitzpatrick, the son of Eamonn. Kevin came into the business only after the death of the company’s contracts manager. The times were not good and Fitzpatrick senior nearly sold the business to a Cork company, but after a telephone call to his son, at the time in the United States, Kevin Fitzpatrick returned to Newry as the company’s first office-based sales person. Fitzpatrick senior then bought out his partner, Tom McAteer, and turned the business over to Kevin. Kevin found a company with between forty and fifty people and big overheads, as there had been no rationalization when the two companies had merged in 1988. It was contract oriented, with low margins and poorly defined managerial roles.

The company capability was in waste water pumps, which is marginally more than installing septic tanks and had a service business that piggy-backed on the installation business. The big contracts focus did not appeal as there was no opportunity to be creative. Contract bidding simply involved pricing a bill of materials and the winner was usually the bidder willing to take the biggest risk.

The company changed direction in the year 2003. Kevin Fitzpatrick sought new ideas for products through which FM Environmental could move into more lucrative markets and offer opportunities to be creative and innovative. He began to explore systematically an opportunity that sparked his imagination while doing a six month academic course at Boston College in 1989 that had been supported by the International Fund for Ireland. While in Boston, Fitzpatrick became involved with Clean Harbours, a publicly traded environmental
service and hazard waste disposal company. In fact, Clean Harbours began as a four-person tank cleaning business but today is America’s largest hazardous waste disposal company. While Fitzpatrick’s involvement was mainly to do with judging students’ art work, he attended a trade show in Derry, New Hampshire, where he came across a product called the ‘Big Dipper’, a grease removal system which fits into kitchens and stops grease clogging the pipes and getting into the sewers.

In short, FM Environmental became the Irish/UK distributor for the product and built a sales capacity. FM Environmental then began to modify the product and eventually parted company amicably with the US partner and set up an Irish manufacturing operation with an agreement not to go into America.

In the beginning FM Environmental did the steel fabrication but lacked the capacity and later subcontracted to a steel fabricator in Banbridge. FM initially tried without success to enter the French market. But, fortunately, Ireland was ahead of the UK on environmental regulation and business began to grow. Over time FM has developed a strong presence in France and Australia which have tight regulations. Then, in part because of Fitzpatrick’s father’s long time interest in student exchange with Russia, FM had the contacts to provide its grease removal system to all of McDonald’s outlets in Russia. Another milestone was establishing a more basic and rebranded product under license via a joint venture in Malaysia.

The next major step for FM Environmental was the establishment in 1994 of joint venture in Malta, named FM Malta. It was precipitated by meeting a Maltese businessman at a trade show in Holland. In the beginning the Maltese partner targeted hotels to provide sewage treatment and grease removal equipment. It moved to the renting of a factory to do steel fabrication. FM Malta grew fast from only three people to the recruitment of an engineer and the construction of steel tanks. Malta has a long trading history in the region (Lebanon, Egypt and Libya) that FM Malta began supplying with waste water treatment facilities. FM also got a contract to sell mobile waste water treatment and recycling equipment to BP. Further, FM received a grant from Invest Northern Ireland (INi) to develop equipment for the treatment of sewage and conversion into drinking water.

FM Environmental next began producing glass fibre tanks in Malta for shipment by container to Ireland. However, over time some difficulties arose and in the year 2003 Kevin Fitzpatrick took the decision to buy out the Malta shareholders and take full control of FM Malta. The change in management in the Malta unit worked well and it has taken over new production activities. Initially the Malta unit did steel fabrication of components based on blueprints supplied from Newry head office. But the Malta unit proved up to the challenge and the local engineer proved good at suggesting and acting on improvements in design. Next the Malta unit moved into glass fibre fabrication and by 2010 some four to six containers were being sent monthly to the island of Ireland.

FM Engineering maintains a close relationship with the Malta unit through monthly visits by a Maltese national who works in company headquarters. Since the Maltese speak both English and Arabic they regularly attend trade shows in the Emirates and have successfully developed products specific to markets in the greater Middle East region which has helped balance ups and downs in the company’s Irish business. In fact, the Maltese unit has financed expansions from the growth of sales in the region.

The result has been that FM Environmental has focused on sales and engineering and off-shored most of the manufacturing to Malta. But the company’s external activities are not limited to the Mediterranean. Recently it received a contract to supply all of the Wal-Mart stores in Mexico with waste water treatment equipment. This has involved the design of new products and has led FM Environmental to seek a base in either North or South America. The company is considering establishing a manufacturing base in Malaysia as well. These activities have been rewarded in sales and awards. FM Environmental was awarded NI’s tradable services Exporter of the Year award for 2001 by the Northern Ireland Department for Enterprise, Trade and Investment (Irish Times, 15 June 2001).

Kevin Fitzpatrick’s view is that the core capability of the Newry unit has shifted from manufacturing to knowledge. The indigenous knowledge base springs from both companies and universities. The company has found engineering disciplines such as mechanical and electrical engineering, including the estimating design side, at higher education
institutions in Northern Ireland to be of high calibre. In contrast, FM Environmental has found it difficult to recruit people on the craft side, including electrical and material technicians, in the North, so they have turned to Malta for these.

The medium-term product development pipeline involves more investment in water recycling and more energy efficient pumps, since water pumps are large energy consumers. In 2009 FM Environmental and information management company Central Solutions of Limerick were funded by InterTrade Ireland’s Innova R&D programme to develop a turnkey IT solution for waste water treatment compliance monitoring. This will make it possible to monitor waste water treatment facilities anywhere in the world in its Newry office (Irish News, 21 August 2009: 24).

In the longer term, FM Environmental anticipates opportunities in conversion of sewage into drinkable water as a more efficient technology than desalinization of sea water. At the same time, FM Environmental has continued to deliver its pump maintenance and repair service in the local region, a profitable but non-expanding activity for which it maintains a skill base.

FM Environmental is a family firm in which the second generation has created and successfully acted upon a vision of transitioning from local area contracting to a multinational company with product development capability in markets with large long-term growth potential. The founder of the company is still involved actively, but primarily as the company spokesman. One son, Kevin, is the managing director; a second is a leading design engineer; a third runs the grease capture operation; and a daughter works in sales. One or more may become involved in the establishment of a western hemisphere base.

Norbrook Laboratories Limited

Norbrook is the 33rd largest company in sales on the Belfast Telegraph 2010 list of Northern Ireland’s biggest companies, with £130 million in sales and over 1400 employees. It was founded in 1969 by Edward Haughey after working in the United States in sales. It remains a family firm.

Haughey saw opportunities to buy chemical materials in bulk and to make low-end, oral veterinary products for the animal farming sector on the island of Ireland. He recruited industrial chemists and, using local ingredients, started manufacturing on a small scale in a 3000 square foot, abandoned flax mill in Newry in 1970.

The company moved up the technical range of products, starting with creating a sterile environment and moving into a powder capability. After ten years Norbrook Laboratories had developed a production facility to do sterile injectables, an advance over pill delivery, particularly for animals.

Regulatory requirements were changing rapidly in the early 1970s with the advent of product registration. Norbrook Laboratories benefited by
its presence in the early days of legislation for veterinary products by becoming registered by the US Food and Drugs Administration (FDA). Applying companies face a large barrier to entry since it can take ten to fifteen years of successful results to become a FDA registered company. Norbrook Laboratories has registered GLP (good laboratory practice) and GMP (good manufacturing practice) facilities. It already has on-line process control facilities and purification and chromatography technological capabilities that can be used for various drugs. These are key elements in the creation of an infrastructure to support the global biotech/pharmaceutical industries.

The company focused on generic products in which patents have expired. Exports to Britain began within the first six to seven years and quickly became the key to success. In time, Norbrook Laboratories became a contract manufacturer to many of the leading brand name pharmaceuticals. This enabled the company to gain a foothold in foreign markets without a sales force. Norbrook Laboratories took advantage of a common regulatory requirement that pharmaceutical companies need a country-specific product registration to sell which, in turn, requires a local production unit that can be inspected by regulatory authorities. Norbrook’s production facility in Northern Ireland could be used for this purpose by American pharmaceutical companies; such companies could sell into the EU via a licensing agreement with Norbrook which controlled a product registration in the name of the brand manufacturer. In 1988 Norbrook entered the US market as a contract manufacturer into which it now sells eight or nine products. Here, too, product licences are required, and even though the products are generic, Norbrook invested £30–40 million in its manufacturing facility over a fifteen year period.

A key part of Norbrook’s strategy has been to maintain the skills and capability to build and maintain its own machines. This is important for demonstrating the traceability requirement demanded for regulatory approval. But it does require a substantial investment in a staff with considerable technical competences. The compliance costs for licences for each factory have grown considerably. Whereas FDA approval cost $50,000 per year a few years ago, today it is about $1 million. The company has specialized particularly on sterile injectable veterinary drugs, for which it claims to be the best in the world. It imports the disposable plastic injectors from a supplier in Belgium. Only a few companies in Europe meet the technical requirements; a leaky injection moulding machine, for example, could risk serious injury to whole herds of animals. Consequently, FDA approval demands that all suppliers are named on the product licence, which gives suppliers considerable leverage.

As a generic manufacturer, Norbrook anticipates new products being developed by the major, R&D-intensive pharmaceuticals that have potential for veterinary applications. Merck, for example, has been developing a combination product that treats inside bacteria and outside ticks; the product seeps in through the skin of the animal. This form of drug delivery is an alternative to both pills and injectable devices. Similarly, insecticides are being developed that work in crops and inside animals at the same time. While these are under patent to Merck, Norbrook has the regulatory authority to produce such products, and once the patent expires Norbrook can become a producer under its own brand name for some markets.

Thus Norbrook Laboratories provides outsourcing services to many of the world’s leading pharmaceutical companies. The development of contract manufactures in pharmaceuticals mirrors a similar phenomenon that accompanied the emergence of the ‘open systems’ personal computer (PC) industry and the breakup of the ‘vertically integrated’ mini-computer industry in the 1980s.

The strategy of Norbrook Laboratories has several elements. First, the formation of strong alliances with major pharmaceutical companies in order to stay abreast of technological advances; second, specialization in high volume, vertically-integrated production of generic drugs using world-class production processes; third, offering out sourcing facilities to United States pharmaceuticals seeking to sell into Europe without local production facilities; and fourth, to move quickly to take advantage of expiring patents.

The strategy of not investing heavily in R&D is logical. Most product innovation will likely be concentrated in perhaps ten biotech regional ‘clusters’ of new and fast growing firms, primarily.
but not only in the United States. These clusters of R&D-intensive companies are embedded in a regional innovation system including life science higher education and research complexes funded over many decades by government agencies. The resulting knowledge base could not be imitated without huge public expenditure.

Norbrook recruits life scientists for the most skilled positions from the region’s universities. Not surprisingly, finding qualified staff with experience in pharmaceuticals is a struggle. Several years ago, Norbrook acquired an R&D unit in Carlisle, England, but over time it has downsized that unit and now all R&D is concentrated in its Newry unit. To meet the need for production chemists, Norbrook has recruited a half-dozen engineers from India, which has a large generic pharma industry, and the company has learned from them. Over the past five years Norbrook has had an alliance with Southern Regional College in Newry in which fifteen to twenty employees from Norbrook go there on an annual basis to acquire lower to mid-level skills.

Norbrook Laboratories is continuing to grow and will likely continue to follow an organic growth approach. It has considered acquiring plants to expand its product range, but the founder of the company has resisted using debt finance. The cost of such acquisitions could easily be enough to risk betting the whole company on the growth potential of the acquisitions, which makes such investments unattractive. Finally, Edward Haughey has two young sons in the business, both of whom are professional graduates, one in medical science and another in law.

**John Huddleston Engineering (JHE)**

We interviewed Mark Huddleston, a third generation in the family firm. The founder, John Huddleston, left school aged fourteen and began his working life as a car mechanic before moving to a tool making company in Belfast. Next, he joined a start-up toy making venture involving six partners. The partners funded the purchase of a mill, a lathe and a drill press to make frames for the toys which John Huddleston was hired to operate. Within six months the partnership was dissolved and the equipment made over to Huddleston. John Huddleston Engineering was formed in 1964. Today it employs approximately ninety people at its Greyabbey, Co Down, site and two hundred and seventy in the group, which includes sites in Blackpool and Poland.

The new company became a supplier of machined parts to Baker Hughes Oil Company (later Hughes Christensen) of Houston, Texas, which had formed a company in Belfast in 1954. In fact Hughes only closed operations in NI in 2010 with the transfer of the last two hundred jobs to Texas. Originally part of the Howard Hughes business empire, Baker Hughes was established to make drill bits for the oil industry and today is part of Halliburton, a Fortune 500 Texas conglomerate which began in the oil exploration industry.

Huddleston Engineering, besides growing its relationship with Baker Hughes, also began to supply precision machined parts to Shorts in both the commercial and defence aerospace sectors. Eventually, Huddleston acquired a twenty-ton crane to move heavy machines and equipment. In 1981 the first Computer Numerically Controlled (CNC) machine was purchased and Huddleston Engineering entered the electronics age. In 1986 JHE erected two buildings at the present rural location near Greyabbey, County Down and began the move from East Belfast. It opened a new facility in Blackpool in 2001, and officially opened the present facility near Greyabbey in 2008. The present facility was specially designed by one of John Huddleston’s sons and a granddaughter.

As a Shorts approved supplier, JHE was able to establish relationships to supply precision machined parts to the global aerospace OEM, including BA Systems, Rolls Royce, Fokker, GKN Aerospace and Airbus. JHE began a growth strategy that included acquisitions. Sometimes the acquisitions were geared to adding to machining capability, others to buying market access, and others to enhance the supply chain management capability offered to customers.

To gain market access, JHE acquired Sycamore Development, a supplier to Hawker Siddeley since the 1950s. It had good capability but suffered from

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*An original equipment manufacturer, or OEM, manufactures products or components that are purchased by a company and retailed under that purchasing company’s brand name.*
under investment, resulting in a gain of market access. Previously JHE had purchased the machining assets of John Hines, a Northern Ireland engineering company founded in the 1880s that lost a contract to Shorts/Bombardier and went out of business.

In 1997 and 1999 JHE made acquisitions that led to the establishment of an operational unit in Blackpool, UK. In 2010 JHE acquired King & Fowler, established in 1887, which has provided surface treatments to the aerospace industry for more than 60 years. In 2006 King & Fowler Polska was established in Mielec, Poland to provide low cost surface treatments to the European aerospace industry. The acquisition of King & Fowler provided JHE with the largest aerospace-focused, surface treatment capability in Europe. As each aircraft manufacturer has different treatment specifications, this is an important differentiating service. It also gives JHE the opportunity to provide a vertically integrated solution to its customers and thereby meet the logistics requirements increasingly demanded by contract manufacturers to the aerospace OEMs.

JHE’s strategy has involved considerable investment to maintain its state of the art, high speed, precision machining capability. Management is taking early steps to supply parts with tight tolerance to a greater diversity of industrial customers including energy and oil exploration gas valves, generators and gearboxes. Recently JHE has shared design solutions with Parker Harrifin, a $10 billion manufacturer of motion and control technologies and systems. This has involved a large investment in state of the art machining capability. JHE’s website states the following:
Through a progressive and structured £11 million (GBP) investment programme that commenced in 2004 and an additional £6 million investment plan launched in 2009, the JHE Group today provides customers with the resource, capability and capacity of leading edge machining and CAD/CAM technology. This investment has enabled the JHE Group to be at the forefront of machining technology, providing customers with the benefits of a substantial high-speed 5-axis machine capacity. The investment of these world leading machines is supported by experienced engineers using Catia V5 and Mastercam CAD/CAM software along with Vericut electronic machining and product simulation.

The company’s strategy has involved the establishment of an apprenticeship programme in which JHE has had a long term relationship with the public sector, beginning with LEDU (Local Enterprise Development Unit) and the establishment of Engineering Training Councils and extending to the Department for Employment and Learning, and more recently to the Southeast Regional College. JHE has seen thirty one employees get national vocational qualifications at Level 2, many of whom went on the Level 3. One large, machine filled room is dedicated to apprenticeship education activities.

Invest Northern Ireland (INI) and its predecessor (the IDB) have worked with JHE in a number of ways to enhance its skill development programmes, participation in trade shows, establishment of lobby groups such as the Air Force Defence and Security Group, and grants for machine purchases. Queens University Belfast (QUB) has a very strong aeronautical engineering programme which is highly involved with research in areas such as advanced materials that is crucial to the region’s aerospace industry, and University of Ulster (UU) at Jordanstown has a strong manufacturing engineering programme with a specialized component in aerospace – from which Mark Huddleston, the MD of JHE, is a graduate.

Turkington Engineering Limited

Brothers Ian and Vernon Turkington saw an opportunity for supplying poultry cages constructed from wood and metal and established Turkington Livestock Systems in 1963 in Sandholes, County Tyrone. Shortly thereafter the brothers acquired Industrial Laundry from nuns in Dungannon and built a facility next door to run the business. In the 1990s, the company was split into three: Industrial Laundry, which has since been sold to Johnsons PLC, a UK company, which still operates on the site; Turkington Engineering Limited, which today is owned and managed by Ian Turkington’s son, Ryan; and Turkington Systems, which continues to specialize in poultry housing. The Turkington family owns 100% of Turkington Livestock Systems and plays an active role in the day-to-day running of the business, where Ernie Lee has been hired as managing director.

Turkington Engineering (TE) was established in 1977 to produce oil-fired, central heating boilers, which continues to be its primary product. TE specializes in the sheet metal component of the boiler, including the condenser, and imports the thermostat from Sweden and the burner from Italy. TE shares the island of Ireland market with three major competitors, the biggest of which is Worcester Bosch.

In recent years TE has branched out in two directions. Approximately twenty per cent of its work is now as sheet-metal sub-contractor to Powerscreen and McCloskey International, the major global players in the screening and mobile crushing equipment industry with a location in nearby Dungannon.147 TE’s workforce, some of whom have been with the firm for forty years, have expertise in folding and welding steel that can be applied to both boiler making and crushing equipment production.

More recently, TE has entered into a manufacturing agreement with Woodpecker Energy to supply wood pellet boilers, a carbon neutral heating technology. So far the number of units produced has been small but this could suddenly change with the proposed introduction of renewable heat incentives in the UK. Woodpecker Energy does the engineering

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147 Ryan Turkington called our attention to the extraordinary mobile crushing and screening plant cluster in County Tyrone and associated engineering companies led by Powerscreen, Finlay Engineering (founded by John Finlay in 1958), Moffett Engineering and CDE Global, http://www.hub-4.com/directory/c219/mobile-crushing-screening-plant
design and marketing for the British Isles and has an Olympic Village demonstration site in Portsmouth for a 300kw district heating scheme variant of the boiler. Wood pellets can be supplied by Balcas’s wood pellet mills in Enniskillen (55,000 tonnes/year) and Invergordon, Scotland (100,000 tonnes/year) which is a £65 million turnover company.148

Turkington Livestock Systems, founded in 1963, began as a supplier of poultry cages and repositioned to poultry and pig houses. Today it produces poultry houses based on timber, steel, and GRP (glass-reinforced plastic) and employs thirty people directly and twelve as sub-contractors. We found that while the egg laying branch of the poultry industry is widely dispersed, the meat branch of the industry is concentrated in four to five clusters centred around processing plants Dungannon, in three Moy Park locations, Ballymena, Shercock, Co Cavan, Limerick, and Cork). Live birds do not travel well and tend to be raised within 40 miles of a processing plant. Prepared meat, in contrast, can be refrigerated and shipped globally, and Brazil and Thailand have become major global suppliers. Moy Park was acquired by a Brazilian company which more recently also acquired O’Kane, Northern Ireland’s second largest poultry processor. Moy Park is the second largest in the Belfast Telegraph’s Top 100 Northern Ireland Companies for 2010 with 6,920 employees and £780 million in turnover.

148 Balcas and Fisher Engineering Limited are the two largest companies with registered offices in County Fermanagh (FAME). The formerly family-owned and Enniskillen-based Fisher Engineering was taken over by Severfield-Rowan plc in October 2007. The parent company is now Action Merchants Ltd.
In England the bulk of poultry farms are owned by the processors and run by site managers. In Ireland, in contrast, thousands of individual farmers raise the chickens and have ten year contracts to supply processors. A large processor, such as Moy Park, will provide a range of services to the farmers including financing of houses, feed, medication and disease control. Farmers will tend to have one or two poultry houses but can have up to four.

Farmers are the customers for Turkington Poultry Systems, which fabricate and erect the buildings for poultry farming. Such buildings have become increasingly complex as modern poultry houses require ventilation, temperature control, computer controlled feed systems and a range of other features. Chickens are produced in a forty-day cycle in which the first ten to fifteen days require considerable heat before the feathers are established. But over the rest of the cycle high temperatures are bad for chickens.

As a supplier of poultry cages, Turkington Livestock Systems networks with many hundreds of poultry farmers and is thus in a position to diffuse innovations widely across the sector. Such networks are a common feature of the otherwise highly fragmented agricultural sector of Ireland. Monaghan Mushrooms Ireland Ltd illustrates how rapidly an industry of this type can be transformed. Founded in 1981, Monaghan Mushrooms achieved exports of over £130 million and become the 115th largest exporter (indigenous or foreign multinational corporation) from Ireland in 2009.149 While employing 700 itself, Monaghan Mushrooms both became a global marketing agency for, and oversaw the rapid diffusion of advances in the technology of mushroom growing equipment to the small landholding farming community.

Since Turkington Engineering trades extensively with customers across the border, we asked Ryan Turkington if this had created problems for the firm. He stated that the border had never affected TE business. Indeed, as a very young boy his father had told him to pay no attention to who came in the door to do business, because ‘no one had a flag on his cheque book’.

**Hunter Apparel Solutions (Hunter)**

Derry is known as the first city in the world to have shirt making factories, and the city once had sixty four shirt making companies, many of which were large.150 Hunter Apparel Solutions is the only surviving company in the city’s clothing industry, an industry that until recently dominated the regional economy.151 While it is the only survivor, it is instructive to go through the major decisions through which it transitioned to meet the challenges.152 It provides an interesting template for entrepreneurial success stories in other industries as well.

Hunter began in Belfast in 1936 as a retailer of police uniforms. During World War II, Hunter won contracts to sell shirts to the British army but struggled to get them manufactured. Consequently, in 1952 Hunter relocated to Derry and bought a small shirt manufacturing company to control its supply. But as early as 1960 the founder imported shirt collars from Hong Kong to attach to shirts. The founder’s son took over in the 1970s and focused his attention on turning Hunter into a highly skilled and high quality shirt making manufacturing company. Hunter was no longer involved in retailing and did not have a brand name. He was successful in making a high quality shirt. The company was well supported by capital and training grants in the 1970s and 1980s and rapidly grew the business to a labour force of two hundred and forty employees and five


150 The history of shirt making in the city dates back as far as 1831 and is said to have been started by William Scott and his family. Within 50 years, shirt making in the city was the most prolific in the UK with garments being exported all over the world. Famously, the industry received a mention in Das Kapital from Karl Marx, when discussing the factory system: “The shirt factory of Messrs. Tille at Londonderry, which employs 1,000 operatives in the factory itself, and 9,000 people spread up and down the country and working in their own houses”. The industry reached its peak in the 1920s, employing around 18,000 people. [http://en.wikipedia.org/wiki/Derry](http://en.wikipedia.org/wiki/Derry), accessed March 17, 2011.

151 Desmond’s, a supplier to M&S, had 15 factories in the northwest employing around 300 each, including a shirt factory employing hundreds up to the last decade. McGee Clothing, another iconic apparel company, was one of the last to go.

152 Smyth and Gibson is a new entrant to shirt making in Derry which specializes in handmade shirts. It has grown to 50 employees since its inception in the mid-1990s (it is officially recorded as starting in 2006). It is the only other apparel manufacturing company in Derry of which we are aware. [http://www.smythandgibson.com/](http://www.smythandgibson.com/)
sub-contractors. A UK agent handled marketing and won contracts from, for example, the Iraqi Air Force.

Nevertheless, the shirt making industry contracted rapidly in the 1980s and by the time Simon, the third generation owner, took over in 1995 the number of shirt making factories in Derry had been reduced to four from the forty six when his father had inherited the business.

Business was difficult in the 1980s as the retailing sector consolidated and independents exited the industry. Hunter’s biggest client went into receivership in the late 1980s. But Simon’s father purchased the brand name of Churchill when Tiny Rowland’s empire collapsed. Churchill’s brand signified ‘Made in Britain’ for British emergency services, which fitted with Hunter’s legacy. But Churchill had supplied whole uniforms, not only shirts. Therefore at this time it was not possible to capitalize on the Churchill brand.

Before Simon Hunter took over, his father made a last effort at specializing in shirts. An opportunity was created by the IDB to license Ocean Pacific, a US surfer brand, for supplying Europe, but it did not work out. Hunter was left with unsold stock. At the time Hunter made a strategic decision not to return to retailing or compete in the fashion side of apparel. To survive in the short term, Hunter went back to the supply of shirts to the emergency services.

When Simon Hunter became managing director in 1995 his first challenge was to develop a strategy. He toured the market to understand better the challenges and opportunities. He feared the ups and
downs of getting into the fashion end of the market and the power of retailers to shift the cost of unsold inventories to manufacturers. He sought to build on the company’s legacy in supplying emergency services, as these sectors were well-known. But the market place was changing. He became aware of a move toward the idea of ‘consolidated purchasing’ in which suppliers were required to offer a whole uniform rather than a single item.

Starting with the idea of ‘holistic’ supply meant Hunter had to move toward supplying the whole uniform to emergency service customers. Hunter Apparel, however, did not have the manufacturing capability to supply whole uniforms and such capability could not be found by networking with other firms to combine the skill base of the region. This led to the decision not to compete on the basis of low manufacturing costs for any single item or even to seek to drive down costs on manufacturing by importing alone. It meant finding economies in an integrated supply system for the provision of emergency service uniforms.

Simon Hunter’s strategic vision for reinventing the company was based on the understanding the opportunity created by information technology and the internet. By fortunate coincidence, Simon Hunter was developing a strategic vision precisely as the internet was starting to provide a sophisticated tool for communication between supplier and customer. Netscape had changed the world of commerce when it went public in 1994, the year before Simon took over the company.

On the production side this meant downsizing internal manufacturing activities and developing a flexible, rapid response, networked supply system. This greatly expanded the global reach of the supply base. The in-house production facilities were reorganized into four warehouse cells using visual, ‘lean production’ system principles to maximize throughput efficiency. It also meant investing in a high-tech embroidery capability for purposes of individualizing uniform insignia.

On the employee skill side, it meant training its staff on how to measure (or ‘size’) every member of each
emergency service agency with whom Hunter had a uniform provision contract. Success depended upon getting highly accurate size measurements recorded in the database. Sizing ‘tablets’ were developed to facilitate this activity, which included skilling the workforce in uniform fitting as well as new production tasks. The system had to be finely calibrated to account for individual adjustments such as uniform changes due to pregnancy, allergies to certain materials, or religious restrictions with respect to certain styles and colours. An urgent order may come in, for example, to supply a new uniform for a chief fire officer to attend a special function, and this had to be handled using the internal manufacturing facility. The ability to react quickly, although not in itself a source of profit, was an essential element of the wider service provided to the customer.

Hunter is now established as the managing agent of uniforms primarily for emergency services such as fire brigades, police, ambulance and health services. The success of the new business model is indicated by the fact that Hunter Apparel Solutions has contracts to supply the uniforms for twenty one of the forty eight UK fire services. It also supplies An Post, Ireland’s postal service; Dublin’s new airport terminal staff; and HSCNI (Health and Social Care Northern Ireland).

Hunter’s success at supplying the medical sector began by focusing on nurses’ appreciation of ‘cheerful’, stylish and practical uniforms. Simon Hunter recently received funding from InterTrade Ireland’s Innova programme to partner with Itronik Interconnect, a Letterkenny technology company, to develop a hygiene management system for healthcare professionals. The first idea was to stop the uniform from being a source or vector of infections such as MRSA. The first idea was to do clinical testing of anti-microbial fabrics, but this did not prove successful. It was found that uniforms were indeed a source and vector for infections of many types and that finding a material for which this was not true was highly challenging.

The second approach was to attack the problem indirectly by embedding an RFID capability within the fabric. This is based on the idea that the most effective hygiene system is hand washing and an RFID capability could be designed to record the time of each individual in front of the washing facility. In effect it defines a protocol wash and records the data. The InterTradeIreland grant funded clinical tests and the results will be published later this year and put into the public domain.

In conclusion, Simon Hunter rethought and reorganized the entire business system of design, production, sourcing and delivery of emergency service uniforms to take full advantage of the technological opportunity of the internet. Hunter’s business strategy was to become a management agent to provide uniforms to multiple emergency service agencies. This enables emergency services to focus on their core functions and partner with Hunter for the requisite service activity of uniform provision. At the same time, by focusing on apparel solutions, Hunter is finding ways to partner with technology companies to sharply improve the functionality of the uniforms. In the case of health care professionals, this means reducing the spread of infection.

So far the direct employment creating effect of Hunter’s new business model has not been large. Hunter employs forty three directly. This could grow if innovations such as the RFID-embedded material leads to a big increase in orders. But it is the entrepreneurial business model that marks out Hunter Apparel Solutions as a leading company in the long term economic development of the region. It demonstrates the importance of technology integration in business development and competitive success.

**Seagate**

Seagate came to Northern Ireland in 1993 with the establishment of a wafer fabrication facility at Springtown Industrial Estate in Derry. Seagate’s Northern Ireland entry was a consequence of an accidental meeting in Silicon Valley between Brendan Hagerty, executive director of Seagate and originally from the area, and John Hume. Invest Northern Ireland paved the way. Production began in 1994 and today the company employs over 1400, supplying over one million heads every day for Seagate disc drives. Using some of the most

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153 A knowledge transfer partnership involving the University of Ulster at Magee and InterTradeIreland facilitated the process.
154 Barry Henderson of UU Magee initiated the process by calling Simon Hunter in response to an article in the Irish News.
advanced technology in existence, the Springtown facility is the largest factory of its type in the recording head industry and is a core asset for Seagate, which employs 50,000 globally.

Along with Du Pont, which has been based at Maydown since 1958, Seagate is the oldest major foreign employer still present in the area. Virtually all of the other multinational manufacturing companies that have come to the region have exited, such as United Technologies, which closed in 1997 with a loss of 900 jobs; Ford Motor Company; Northern Telecom Ltd; Raytheon and Fruit of the Loom International.

Seagate continues to invest, with over $1 billion in the last two years. However, the lack of a research intensive university in the Derry area, with high-tech science and engineering departments, has not worked to Seagate’s advantage. The lack of a dual carriageway to Belfast or a rapid train service has contributed to the limited success of Seagate’s efforts to establish partnerships with Belfast higher education institutions. Nevertheless it continues to support R&D in its plant – although this is staffed primarily with experts from China and Eastern Europe.

Monaghan Furniture Cluster

John E. Coyle Ltd was established in Co. Monaghan in 1936. It was the first entrant into what became a cabinet making furniture cluster in County Monaghan. In 2003, with one hundred and thirty people and €12.5 turnover, Coyle was the biggest firm in the cluster and set the standard in investment, training, design, quality, product development and advanced production capabilities for the region if not the island of Ireland. Between 1995 and 2003, Coyle invested in the region of €8 million in new equipment to meet the increasing competition from low cost producers of Eastern Europe (Enterprise Ireland Annual Report and Accounts 2003). Coyle had in excess of five hundred product lines in mahogany, beech, maple and cherry veneers, supplied independent retailers, and exported ninety five per cent of its products, primarily to the UK.

Coyle was followed in the 1940s by Góla, in the 1950s by Sherry Brothers, Neeson and Glenwood and in the 1960s by McNally and Finlay. Founders of Sherry Brothers and Góla had been employees of Coyle and produced a similar range of furniture. Sherry Brothers, McNally

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155 In 2005 DuPont employed 650 at its Maydown facilities, but only 180 in 2009 (Belfast Telegraph, ‘Invest NI under fire as 3000 jobs axed’, 2/8/2011).
158 Neeson made chairs by importing components from Italy which it supplied to McNally and Finlay.
and Finlay, and Góla became large furniture companies with between seventy and one hundred employees each in the year 2000. All applied veneers to medium-density fibreboard to produce bedroom, living room and dining room furniture, most of which was exported to the UK. Coyle always set the operational performance standard for the cluster and established a mid- to up-market brand name in the UK.

The Monaghan cabinet makers, unlike their UK counterparts, survived the economic downturn of the early 1980s. In fact, they benefited from the collapse of the once large North London cabinet making industry in this period (Best, 1990). Thereafter, they rode the Irish construction boom and the sustained growth of the early 2000s. One company, for example, increased sales from €3.5 million in 2003 to €6 million in 2007.

With very little advance warning, in 2007 the market for furniture collapsed. Turnover declined by seventy five per cent at one of the leading firms. Coyle stopped manufacturing in that year. Many of the smaller companies closed, including S.F. Quinn (29 employees), Scotstown (24 employees) and Hallmark (32 employees). McNally and Finlay, Sherry Brothers, Glenwood, and Góla all suffered a sharp drop in turnover but continue to operate at reduced scale and employment levels.

With hindsight, the boom years delayed the impact on the Monaghan cluster of the powerful forces of globalization that were revolutionizing the once internationally fragmented furniture industry. The arrival of IKEA in both Ireland and Northern Ireland is a manifestation of the new forces.

The age of the container dramatically reduced transportation costs, an opportunity that was seized first by Italian, German and Danish exporters. Over the period 1970 to 1992, Italy’s exports of furniture increased by fifty times and Denmark’s by twenty eight times. In the period 1961 to 1990, the average annual growth in international demand was nineteen per cent, only surpassed by computers and peripherals (just over twenty four per cent). Furniture making, a traditional industry which at the same time had become a modern industry that can drive regional growth, became both a major employer and contributor to the EU trade balance (Maskell 1996: 9).

Over the last two decades China has exploded onto the world furniture industry scene. In 1990 it did not feature in the top ten exporters; in 2000 was the world’s ninth largest exporter, and by 2006 the largest. Between 2002 and 2006 Chinese furniture exports increased by thirty per cent annually to reach over twenty per cent of global exports, double that of Italy, the second largest exporter.

China has brought mass production to the furniture industry on a massive scale. With more than 50,000 furniture manufacturers employing 50 million workers, China has replaced Italy as the world’s largest furniture exporting country. Italy has 37,000 companies and a total of 230,000 workers. Thus whereas each furniture company has an average of six workers in Italy, each company in China has an average of one thousand workers. It is interesting to note, however, that the growth of Chinese furniture exports was not accompanied by a sharp contraction of the European furniture industry. While the growth of European furniture output did decline between 2001 and 2003 by just under three per cent per year, it grew by a fast rate between 1996 and 2000 and in 2006–2007, before declining by just under four per cent in 2008. Imports of Chinese furniture into the EU grew from under €4 billion in 2005 to over €6 billion in 2008.

Against these global forces, most of the Monaghan furniture companies diversified into trading by outsourcing to Eastern Europe and China. It has not always been successful. Raw material costs, high in furniture, are the same as everywhere else. Labour only represents between ten and twenty per cent

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159 While the furniture ranges were similar and specialization within the group was minimal, forms of cooperation did exist. For example Sherry Brothers and McNally joined forces to develop the Rossmore brand of furniture.

160 Maskell found that in the 1980s the wooden furniture sector ranked number 7 out of 85 subsectors in employment (1996:9).


162 http://www.soc.duke.edu/NC_GlobalEconomy/furniture/overview.shtml

of costs. The problem is that the bottom end of the furniture market is terribly crowded and the top end is firmly in the control of long established furniture districts on the European continent.

Visiting the shop floors of the region’s furniture companies reveals a deeper cause of their loss of competitiveness: none made the transition to world class, one-piece flow production methods. This is understandable, since achieving high rates of throughput (based on JIT production methods) entails a focus and network business model. This transition cannot be done alone; it requires inter-firm coordination in the form of network alliances. The Monaghan-based companies pursued instead a go-it-alone business model: they sought to compete on the basis of designing new products within an existing production system. The result was in all cases an increase in scheduling bottlenecks and batch sizes, and a decrease in flow. While this ‘mass batch’ production system was competitive in the past, the new ‘lean’ production system established an order of magnitude advance in performance standards for cost, quality and time (Best 1990).

Bose Corporation’s Carrickmacross plant, discussed next, is an example of world class manufacturing which has a crucial ‘furniture-type’ element.

**Bose Corporation**

Bose Corporation, the global leader in loudspeakers and ancillary audio equipment, was founded in 1964 by Dr. Amar G. Bose, then professor of electrical engineering at the Massachusetts Institute of Technology. Its turnover today is approximate $700 million and it has five facilities, including its headquarters in Framingham, Massachusetts. It opened its Carrickmacross manufacturing site in 1978, attracted in part by the furniture making tradition in the region. In the words of Pat McAdam, Bose director in Ireland, importing cabinets was not economical. The idea was to get local suppliers to make the high–specification cabinets, which for acoustical reasons are made of wood.

As it turned out, Bose was not successful in finding woodworkers who had experience in making wood products at the tight tolerances demanded for audio systems. Nevertheless, Bose has developed a state of the art manufacturing plant which today employs 185. Much of the specific woodworking expertise was obtained from a Bose facility in Canada that had developed good woodworking practices over the years.

The Carrickmacross plant has seven CNC woodworking machines for drilling, routing and milling operations. Much of the tooling is made in an in-house machine shop. Furthermore, the Bose plant recycles waste wood products into an environmentally clean boiler system to provide all of its heat energy requirements.

The cabinet-making and electronic assembly plant is a model ‘lean’ manufacturing facility including a high–performance, self-directed work team organizational system. It is also unionized. The director stated that productivity has advanced by fifty per cent since beginning the lean manufacturing
journey in 2007. All of the features of the Toyota production system are on display including JIT, SMED or single-minute exchange of die, Kanban or visual information and scheduling system, and 5-S Kaizen continuous innovation work organization (Best 1990, Chapter 5; Best, 2000, pages 15-22). The plant illustrates exactly how world class manufacturing can work in a relatively small plant located in a rural area within the context of island of Ireland.

**Feldhues**

Feldhues began as a butcher shop over two hundred years ago in Westphalia, Germany. In recent times it became an engineering-intensive meat specialist that produces own-brands. In 1985, after a chance meeting between John Daly of County Monaghan and a member of the Feldhues family at a food fair, it was decided to locate a manufacturing site in Clones, Co. Monaghan. Financial incentives and grants eased the way, as did the low corporation tax rate. But Feldhues was also attracted by the 'green island’ and grass fed cattle connotation as well as the global concentration of infant formula companies in Ireland. In 2001, after a period of little investment while owned by Hazelwood Foods, the company has now been reinvigorated with new technology designed and built in the German plant.

Uniquely it is also a producer of food processing machines. Feldhues Tec, the German-based technical department of the group, is of special interest. It develops and builds production equipment for...
both in-house and as special machinery for third parties. But it does not sell its specialized machinery by which it produces children’s processed meat with embedded characters. The now famous (and copyrighted!) Billy Bear was the first such character, and this has been extended to many different characters.

Feldhues has been developing new non-meat, nutritious children products using the same technology with a range of popular cartoon characters. One range is cheese based and another uses vegetable products such as sweet potatoes, carrots, and cauliflower which provide natural sweeteners. Tesco has begun selling some of these products, which are referred to in the industry as ‘stealth’ vegetables. Feldhues is building a children’s website that features many of its characters such as Bob the Builder and Mickey Mouse.

Since Feldhues’ competitive advantage is in the production process and specialized machines, Joe O’Connell, the managing director of the Clones facility, sees it as a technology company. A tour of the plant reveals an extraordinarily clean, modern and efficient facility. At present it employs eighty five and has a turnover of £6.5 million in the Clones plant.

Castlecool

Castlecool, a cold storage and logistics company founded and managed by Paul Shortt, operates from three sites in Castleblayney, Lough Egish and Dundalk. It won the prestigious Deloitte Best Managed Company award in both 2010 and 2011. Castlecool also recently won first prize at the Small Firms Association (SFA) National Business awards in the Services category, and was nominated in the SFA awards Environmental Sustainability category. Castlecool’s customer base comprises major food and beverage companies in the dairy and retail food sectors, in both Northern Ireland and the Republic of Ireland.

What makes Castlecool particularly interesting is that this single company interfaces with so many companies and sub-sectors of the food processing industry. It does so by providing a set of common production-related services that are required by nearly all firms in the industry. This enables all of its customer companies to specialize in their core capabilities and partner for their requisite business services. Castlecool, in turn, is able to achieve economies of scale and scope in the provision of storage and logistics services to all of the firms in the industry independent of size.

Castlecool Plant, Castleblayney: Cold store area. Prof. Michael Best with Paul Shortt (CEO Castlecool)

166 Shortt had previously worked as finance manager for a company in the storage industry that did not pursue the entrepreneurial opportunity which Castlecool represents.
167 Castlecool currently has a warehousing capacity of 285,000 sq. ft. along with 44, 500 pallet spaces, and is looking to expand into new industries that require temperature control warehousing such as the pharmaceutical industry.
The diverse but related range of services that Castlecool can provide customers includes temperature controlled warehousing, dry storage, blast freezing, tempering, packing, order picking, distribution (local and international), sampling and food testing, logistics management and food brokerage. Moreover, Castlecool has integrated a range of IT and internet-based telecommunication technologies with food processing logistics. These include web-based network management software and radio frequency functionality which has enhanced order picking accuracy, tracks movement of goods (receipt–order pick–delivery), interfaces with SAP and other systems, and provides product traceability processes.

Examples of specific customers and services include Heinz and Cargill (ready meals: vendor management, ingredient and packaging, storage, production line fulfilment); Unilever (ice cream storage); Irish Dairy Board (dairy products: storage and tempering); Grove Farm (meat products: storage and blast freezing); Cuisine de France (bakery products storage); Moy Park (meat products storage); La Rousse Foods (food services: storage, picking and packing, distribution); Glanbia Foods (dairy products: distribution hub service); AIBP (meat products storage); Manor Farm (chicken products: blast freezing, storage handling); Lakeland Dairies (dairy products storage); and Silver Hill Foods (ducklings: blast freezing, storage handling).

Productivity advances at Castlecool have a leveraged impact on the industry as a whole. But even more important, the availability of world-class storage and logistics related services enables all companies with whom it interacts to focus on their core capability and partner with Castlecool for a range of complementary capabilities. This is a defining feature of the open–systems business model which is critical to fostering cluster differentiation and associated productivity advances and innovation opportunities. It allows companies to do and improve on what they do best.

The IT enabled logistics services create opportunities for customers that directly impact on working capital requirements and supply chain efficiency. These include enhanced inventory and supply chain management and transportation efficiency. Backhauling services have proven an important means to reduce waste in logistics. Examples of backhaul service routes and customers using Castlecool’s Castleblayney site include: Dublin – Tesco Ireland; Dublin/Cork – Dunnes, Musgraves, Allied Foods, Superquinn; Dublin/Galway – Lakeland Dairies; Belfast – Henderson’s/Haslett’s; Cork – Allied Cork/Musgrave’s.

This is not the end of the story. Castlecool has recently developed an even more direct impact on the production-related cluster opportunities of companies big and small. It started with the decision of Cargill to locate adjacent to Castlecool’s Castleblayney location in a plant owned by the Castleblayney Enterprise Centre. This facility employs one hundred and fifty people. Following this model, Castlecool acquired the Lough Egish Food Park in 2006. This site provides FMCG (fast moving consumer goods) manufacturers a second single site for a suite of services. Among the companies that have taken the opportunity to establish facilities at Lough Eglish Food Park are: Lakeland Dairies, Swift Fine Foods, Rangeland Meats, Malone Meats, Morgan Meats, Kozyshack, Olhausen, Savage Forklifts and SFS Engineering. The result has been the establishment of an infrastructure with economies of scale and scope for setting up modern factories. Factories’ set-up costs are reduced by the economical and ready availability of electricity (sub–station on site); water; natural gas and effluent treatment plant; broadband and IT; and on site access to Castlecool’s chill rooms, cold stores, dry stores and blast services.

To address the costs from the high energy intensity of cold storage, Castlecool has conducted R&D on wind turbines and combined heat and energy systems. In giving its 2010 award to Castlecool, the Small Firms Association noted that: “The company also works closely with Queen’s University Belfast to aid innovation and has recently taken in a graduate electrical engineer to look at wind–energy opportunities”. Funded in part by an InterTradeIreland Fusion Award, Catherine Conaghan, an electronics engineering graduate of National University of Ireland Galway, and Cuan Boake of Queens University Belfast, completed an exemplary wind turbine feasibility study for the

The report is titled “An investigation into the parameter monitoring regime for a dynamic refrigerated warehousing energy management strategy”. It includes the novel idea of thermal storage to counter the non-regularity of wind energy. The concept of storing electrical energy in the form of thermal energy by active and passive methods has been employed throughout the world in various ways by storing excess energy that is generated at a time that is not required until a later time. In this way energy can be stored at cheaper electricity utility rates to offset against peak loads or peak rates at another time. In refrigerated cold stores there is an opportunity to store energy passively within the building in the internal structures and product. Driving down the costs of energy with innovation is another illustration of how increasing specialization within an open-system business model can foster innovation for networked groups of companies.

10.4 Conclusions from business case studies

It is probably honest to admit that we decided to set up visits to a range of individual enterprises out of a sense of frustration with the lack of detailed knowledge of the nature of the business sector in the border region. Official statistics tended to be bland and uninformative, where they existed. And not much existed. Ultimately, knowledge lies with the people who run the businesses. However, business people are always busy and not only did we wish to interview senior management and owners at considerable length, but we had a very intrusive list of questions that tried to penetrate into the deepest areas of each firm’s operation and strategy. The visits that we were able to carry out were extraordinarily interesting, informative and thought provoking, and the senior managers who met us gave generously of their time and their expertise in a very friendly and open way. Not only did we learn much about a range of individual firms, but we also came to interpret the role of public policy in a new and illuminating way.

For example, the insights arising from our discussions with Simon Hunter related mainly to the question of how a firm in a very traditional manufacturing sector (clothing) can transform itself and survive in a declining sector and a de-industrialising region. When we visited the Derry region and spoke to people in local government and NGOs, there was a tendency to regard this sector as a lost cause and to want to move on to high-tech sectors that appeared to offer more promise. Hunter Apparel Solutions showed us how short-sighted and flawed this view was.

The insights arising from our discussions with Paul Shortt of Castlecool related to the complex storage and supply logistic systems that are essential in supporting the growth of high added value food manufacturing, much of which is located in the cross-border area. They also illustrated how firms that take the island market seriously see the cross-border region as an important strategic location for supplying the large population centres, North and South.

Our discussions with Walter Watson gave valuable insights into how a sophisticated, modern firm engaged in the production of a range of complex metal products could evolve in a rural area near the border and thrive in highly competitive domestic and export markets. It also illustrated how a firm can start by manufacturing simple products destined for local markets, but can grow to become a large and sophisticated exporter.

Our discussions with Pat McAdam, Bose director in Ireland, gave us an example of an extraordinarily sophisticated, foreign-owned firm that located in the border region in 1978, originally hoping to source some of its supply chain locally (i.e. production of wooden cabinets for the Bose top-of-the-range audio equipment), failed to find suitable suppliers and then put in place its own supply facility. It also illustrated how the valuable experience of a firm like Bose was largely ignored by the existing furniture sector in the area, which has suffered a catastrophic decline in recent years.

However, there were much deeper insights to be obtained, drawing on the industrial strategy frameworks outlined in Chapter 5. We will return to these in our concluding chapter.

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169 The report is titled “An investigation into the parameter monitoring regime for a dynamic refrigerated warehousing energy management strategy”.
Chapter 11: Tourism and the border

11.1 Introduction

The third topic that looks inside the border region examines tourism. This is an area that has had extensive resources devoted to it in the context of a post-Belfast Agreement focus, but perhaps less so in the narrower context of the cross-border region. Our analysis was originally intended to focus particularly on the evolution of local initiatives in the cross-border area which seek to build on newly established links between groups who look for returns from local initiatives, including production and consumer activities. We wished to view tourism in terms of peripherality, consumer markets, micro-enterprise behaviour and tourist-related infrastructure, thus bringing together, in the form of an integrated case study, the insights that emerged from the previous three topics.

There is a strong temptation to approach this topic in an optimistic mind-frame. In the post-Belfast Agreement era of peace and reconciliation, tourism seems to hold out the dual prospects of people on the island coming together physically as well as mentally, and of attracting foreign tourists to an island whose people have a reputation for their welcome (‘céad mile fáilte’), whose scenery is renowned for its gentle beauty, and whose culture has spread over the world. What could be simpler than the renewed joint presentation of the island as a single, attractive destination? Here, at last, is a potential island initiative that seems to hold out almost limitless potential for mutual benefit, North and South, at only modest cost compared, say, to the cost of building motorways, airports, harbours and telecommunication links.

Unlike the complexities of industrial development, tourism is an economic activity that we experience regularly in our daily lives. It is not remote and hidden from view. As potential tourists, we ourselves are the target audience of publicity and marketing. As actual tourists, we see the reality for ourselves. But here it is useful to differentiate between two kinds of tourism, which we distinguish sharply from each other for the sake of exposition. Usually there are blurred edges, but it is often possible to place any tourist product into one category or the other. We term the first kind ‘enclave’ tourism, and the second kind ‘cultural’ tourism.

‘Enclave’ tourism has always existed, but has become very important in the age of cheap air travel. It seeks out destinations that have some very desirable attribute, usually sun and sand, preferably accompanied by cheap accommodation and sustenance. In the 1970s, Spain, Portugal, Greece and Yugoslavia started to offer this product to a mass market. Its key characteristic is that the benefits of such tourism can be enjoyed with minimal or no actual close contact with the cultural milieu of the tourist destination. Indeed, an important aspect of ‘enclave tourism’ is that the tourists should feel almost at home, but with infinitely better weather. Today there is a wide range of new, exotic destinations much further afield in Egypt, the Maldives, Australia and Africa.

Cultural tourism has a much longer history. In contrast to the characteristics of ‘enclave’ tourism, cultural tourists actively seek out contacts with the people, institutions and traditions of the regions that they visit. If they do not actively seek them out, they certainly cannot avoid them! For cultural tourism to thrive, it is absolutely essential that visitors are able to blend into local life in a way that almost never occurs with ‘enclave’ tourism. It helps if the weather is benign and the scenery is attractive, but the cultural and artistic milieu is the dominant factor that attracts visitors.

The Irish tourism ‘product’ falls mainly into the ‘cultural’ classification. If proof be needed, one only has to refer to the fact that the main source of tourists to the island, namely Britain, dried up almost overnight when the ‘troubles’ erupted in the North in 1968 and numbers did not return to pre-‘troubles’ levels for over twenty years. Although there were very few incidents during the years of the ‘troubles’ where British tourists were abused or threatened in the South, or of Southern tourists threatened in the North, nevertheless all potential tourists felt vulnerable and that was enough to deter...
them from visiting either region. It is of the nature of cultural tourism that you mix closely with the local population and are not sheltered in closely protected tourist enclaves.

During our research we had the opportunity to travel widely within the North during 2010 and 2011 and experienced for ourselves the undiscovered beauty of that part of the island. However, driving from Dublin to Derry/Londonderry, one noticed that from the moment one crossed the border into the North, almost all the road signs to Derry/Londonderry were defaced. Most had the letter ‘London’ over painted. A few had the words ‘Derry’ over painted. And we saw a couple that had the whole name defaced. Community territories were clearly marked with flags and painted pavements: the Union flag for Protestants; the Irish tricolour for Catholics. There was even the bizarre sight of the Palestinian flag flying alongside the tricolour, to be answered by the Israeli flag flying alongside the Union flag.

As I waited in the foyer of the Derry Chamber of Commerce in the course of a research field trip, looking out through the glass door I saw and captured the image reproduced in Figure 11.1 below. No matter where one travelled, one was conscious of community distrust and territoriality. When one tried to talk to local people about it, it was usually dismissed as the work of a tiny number of trouble-makers and not at all expressing the sentiments of the vast majority of the population. Nevertheless, the images were there to see, and if you were an outsider, they commanded your attention. If you were a ‘Southern’ outsider, with close familiarity with the North, these signs of internal distrust could be taken in your stride, with the knowledge that they were directed inwards into the local society and posed absolutely no threat to outsiders. However, off-island outsiders seldom have this comforting knowledge and reassurance.

In cultural tourism, images are as important as they are in enclave tourism. The images shown in Figures 11.2 and 11.3 were taken from an article that appeared in the September 1999 issue of Cara, the Aer Lingus in-flight magazine. They were examples of how the newly established Irish Free State and the equally newly established state of Northern Ireland were presented to outside tourists. The Southern images, both lithographs by Paul Henry, were the kind of icons that certainly did capture the essence of the Southern cultural tourism product of the day: rural, beautiful, unspoiled. The Northern images of a 1920s ‘flapper girl’ and a sophisticated lady with a Jack Russell terrier, probably did represent the kind of modern, outward-looking society that Northern policy makers believed that they had created, and the kind of tourist milieu that was on offer in the newly created state. One suspects that this was largely self-deception and did not represent the underlying reality of Northern society.

**Figure 11.1: ‘No Surrender’ in Derry/Londonderry**

In the remainder of this chapter we first describe the manner in which tourism was selected as one of the six North-South bodies set up under the Belfast Agreement, and we review an early study of the outcome of these new arrangements (Henderson and Teague, 2006). In the following section we describe how tourism has evolved in another European border region whose recent history is even more terrible and tragic than the Irish border: namely, the Polish-German border. We then examine the most recent data on all-island Irish tourism and describe how the island is being gradually established as a jointly marketed destination. We conclude with some observations of how policy might evolve in the future to build on these efforts.
11.2 Tourism and the Belfast Agreement

11.2.1 Introductory remarks
The 1998 Belfast Agreement set out twelve ‘areas for North-South co-operation and implementation (that) may include the following’ – item seven on the list was ‘Tourism - promotion, marketing, research, and product development’. Tourism Ireland was not subsequently established as one of the six ‘North/South Implementation Bodies’, but is a company limited by guarantee without a share capital. However, its activities are jointly funded by the Southern Government and the Northern Ireland Executive on a two to one ratio. It operates under the auspices of the North/South Ministerial Council through the Department of Enterprise, Trade and Investment in the North and the Department of Tourism, Culture and Sport in the South.

Tourism Ireland (http://www.tourismireland.com/) has offices on the island of Ireland in Coleraine and Dublin, and employs about 160 people working on key source markets such as Great Britain, USA and Canada, France, Germany, the Netherlands, Denmark, Belgium, Italy, Spain, Austria, Switzerland and Australia. It works with the two tourist boards on the island, Fáilte Ireland and the Northern Ireland Tourist Board, who are responsible for product and enterprise development and marketing to tourism consumers within the island of Ireland.

Tourism Ireland, Fáilte Ireland and the Northern Ireland Tourist Board work together in what is described as a strategic partnership. Each agency has a distinct role and remit, and each complements the work of the other to expand Ireland’s valuable tourism market. Tourism Ireland is the agency responsible for marketing the island of Ireland as a holiday destination overseas. It devises and implements marketing programmes and provides industry partners with opportunities to market their own products and services alongside Tourism Ireland overseas. In addition, it is a source of information on overseas market trends and consumer needs, which is made available to the two ‘national’ tourism agencies and to other industry partners.

Fáilte Ireland, the Southern national tourism development authority, was established to guide and promote tourism as a leading indigenous component of the Southern economy. The organisation provides strategic and practical support to develop and sustain the South as a high quality and competitive tourist destination. Fáilte Ireland works in strategic partnership with tourism interests to support the industry in its efforts to be more competitive and more profitable and to help individual enterprises to enhance their performance. The Northern Ireland Tourist Board is the strategic leader for tourism in the North and works in partnership with stakeholders to market the North within the island of Ireland and improve the visitor experience. It also identifies where the best prospects exist and develops programmes to assist the tourism industry to reach its potential.
11.2.2 The impact of cross-border tourism co-operation

An early evaluation of the impact of the Belfast Agreement on North–South economic co-operation on the island, using tourism as a case study, was presented by Henderson and Teague, 2006. The tourism sector was selected for this study as it was considered a relatively non-contentious area of economic activity on which there appeared to be scope and support for deeper North-South economic cooperation. Moreover, since the sector had been selected as one of the twelve areas of cooperation specifically identified by the Belfast Agreement, this suggested that a relatively high degree of consensus existed for the development of cross-border tourism initiatives.

By the middle of the last decade, tourism was making an important contribution to the Southern economy. During the year 2004 approximately 6.6 million overseas visitors came to the South, generating about 4.1 billion euro in foreign exchange earnings. Overall, the industry had a turnover of about 5 billion euro. Approximately 230,000 were employed in the sector. After the mid– and late 1990s, which were boom years for the industry (the sector contributed over 6 per cent to Southern GDP during this period), the sector experienced a slowdown and on average contributed 4 per cent to GDP between 2000 and 2004. Most of this slowdown can be attributed to the decline in US visitors in the aftermath of ‘9/11’ – 11th September 2001.

In the immediate aftermath of the Belfast Agreement the Northern tourism sector was less developed than the Southern sector, mainly because of the negative impact of the ‘troubles’. However, there had been a modest recovery in the aftermath of the 1994 ceasefires when just over a million tourists visited the North. This number had increased to around 1.7 million in 2004 and employment in the sector had increased from 11,000 in 1994 to about 19,000 in 2003. The contribution made by tourism to Northern GDP remained more or less the same at about two per cent, much less than the 4 per cent figure for the South. Thus, although there was satisfaction about the improved performance in recent years, there was still a widespread realisation that the sector continued to operate below maximum feasible potential.

Beneath this aggregate picture, Henderson and Teague pointed out that there were important differences in the dynamics of the sector in the North and the South. The first and obvious difference was the much bigger size of the tourist market in the South than in the North, where the number of tourists to the South outstripped the number to the North by a factor of about 3.5. By the mid-2000s, over ten times more people were employed in tourism in the South than in the North. There was also a big gap in the level of tourist expenditure between the two economies: tourists spent about 3.2 billion euro in the South compared to about 400 million euro in the North. The contrasting size of the two tourist markets was reflected in the accommodation available to tourists: in 2004 there were 131 hotels in the North providing about 6,000 rooms for tourists whereas there were 846 hotels in the South offering a total of 43,000 rooms to the market. In the South there were both new entrants into the hotel market and an increase in the capacity of established hotels, while in the Northern market growth appeared to have occurred largely by existing hotels increasing their capacity.

Differences exist in the market for international visitors either side of the border. Table 11.1 shows the country of origin of overseas visitors to both North and South, where the high concentration of the share of visitors from Britain in the figures for the North contrast with the lower dependency of the South on the British market, and its much greater attractiveness to people from countries like Germany, France and the USA. Figure 11.4 compares where visitors stayed on arrival in the North and South respectively for the year 2004. It shows that 70 per cent of visitors to the North stayed with friends while the majority of visitors to the South stayed in hotels. Henderson and Teague draw the conclusion that the two parts of the island appeal to different segments of the market for international visitors, and that visitors to the South are more likely to come from a wider range of countries, stay in hotels and stay for longer than in the North.

This section draws heavily on the Henderson-Teague study.
Table 11.1: Country of origin of overseas visitors to Ireland in 2004
(Source: Henderson & Teague, 2006, page 11)

<table>
<thead>
<tr>
<th>Origin</th>
<th>Northern Ireland Number</th>
<th>Republic of Ireland Number</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Britain</td>
<td>1,400,000</td>
<td>3,700,000</td>
<td>81</td>
<td>56</td>
</tr>
<tr>
<td>Other European</td>
<td>133,000</td>
<td>1,600,000</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td>USA</td>
<td>122,000</td>
<td>1,000,000</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>Other</td>
<td>70,000</td>
<td>317,000</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>1,725,000</td>
<td>6,617,000</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

In view of the very different structures of the two sectors, North and South, Henderson and Teague suggest that any claims that the sector is ready-made for deeper cross-border cooperation initiatives should be treated with caution, despite the intuitive appeal of this position. They argue that the transaction costs associated with bringing the two sectors closer together can be successfully addressed, but are likely to be high, and addressing them will be complex.

Figure 11.4: Where visitors stayed, 2004
(Source: Henderson & Teague, 2006, page 11)

After Tourism Ireland was set up and started operations in January 2002, rather slow progress was made on defining the interface between it and the two ‘national’ tourism bodies in Dublin and Belfast. Like the other five North–South ‘implementation bodies’, co-operation across the border was a long drawn out process that was fraught with bureaucracy and suspicion. For example, even by 2004 Henderson and Teague noted that “memoranda of understanding between tourism agencies either side of the border (had) yet to emerge”.

A number of cross-border initiatives were developed to address areas of common concern. For example, the Northern Ireland Tourist Board and Fáilte Ireland started to collaborate to ensure that the grading of hotels, B&Bs and self catering accommodation was consistent in both parts of the island. An information technology facility was developed to link and integrate information from either system, thus ensuring consistency and validity of data. The two main training organisations for the industry, Tourist Training Trust in Northern Ireland and CERT in the Republic, worked together to develop cross-border training programmes. The funds made available by the EU through INTERREG II and III and Peace II were used to develop many joint North–South tourist facilities and initiatives (Henderson and Teague, 2006, pages 11–15).

Although the Belfast Agreement opened up an all-island dimension to tourism, Henderson and Teague suggest that a question mark hangs over the ‘depth’ of cross-border initiatives that have been set up and the extent to which all-Ireland tourism initiatives are influencing the core strategic activities of the main tourist bodies north and south of the border. For example, an examination of the strategic plans of the two ‘national’ tourism bodies – the Northern Ireland Tourist Board and Fáilte Ireland – revealed that there was an absence of an integrated strategic plan for tourism on the island.172

The overall conclusion of the Henderson and Teague study was that cross-border cooperation in the tourism industry had increased since the signing of the Belfast Agreement, but this had not led to any radical change in the business or institutional

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172 Interviews with officials about cross-border structures and interactions on tourism-related activity summarised the lack of strategic co-operation as “each area is doing their own thing” (Henderson and Teague, 2006, page 15). Examination of the latest strategic plans reveals that the same lack of integration applies today.
dynamics of the sector on either side of the border. In other words, the two governments had successfully managed to oversee the creation of an agency structure (as part of Strand Two of the Belfast Agreement) for the development of cross-border cooperation in tourism that had neither the authority nor the capacity to launch far reaching initiatives or even to ‘agenda set’ or frame policy discussions that might challenge established thinking or ways of doing things. The arrangements that were set up were little more than information clearing houses or tightly ring-fenced administrative agencies. They certainly did not represent an embryonic governance structure for all-island tourism.

11.3 A note on tourism and the Polish-German border region

The Polish–German border region is an area where cultures as well as different spheres of social and economic life intermingle (Figure 11.5). A major part of the area of the four western border regions of Poland was under German influence for several hundred years. The current Polish–German border was only established after the Second World War and for the next fifty years the borderland was characterised by post-war antagonism and the rigidities of Communism. Only after the collapse of the Communist system in 1989 and the re-unification of Germany in 1990 did the border evolve from a relatively impenetrable and heavily militarised frontier to a completely open border after 2007 when Poland joined the Schengen Area. Cross-border tourist flows built up during this period and when the German labour market was opened to Poles in 2011, cross-border cooperation flourished.

Figure 11.5: Polish–German Cross-Border Region

Just as in the case of the Irish border, their difficult histories have a major influence on Polish–German relations. To a much greater extent than in Ireland, Poland and Germany had to address serious cross-border challenges and work to normalise their cross-border relations. In view of the large-scale population transfers that took place immediately after the war, when the then German inhabitants of what is now Western Poland were forcibly expelled, Poland became a popular destination with Germans for sentimental trips to their former birth places once relations were normalised and borders were fully opened to tourists.

Unlike the Irish border, the Polish and German border areas are characterised by very different demographic processes: population decline and the ongoing process of ageing on the German side, while on the Polish side there is a much more youthful population due to different Polish demographics and to the location of some of Poland’s most important academic centres in the general border region (e.g., Wroclaw and Poznan). In the context of their different economic and social situations, the Polish and German border areas create both development opportunities and threats to each other.

Germany is one of the largest and best-developed tourism markets both in Europe and in the world. It has a very good tourist infrastructure and a diverse tourist ‘product’ which makes good use of its tourism potential. At the same time, Germany is an affluent country with a large population (around 80 million inhabitants). Poland, on the other hand, can still be classified as a developing country, still in the initial stages of developing its tourism potential. There is an increasing element of holiday travel among Poles as the country gradually catches up to the average EU standard of living (currently GDP per head is about 65 per cent of the EU average). Comparisons of tourism expenditures in both countries are shown in Figure 11.6, where it is seen that the German tourism market is more than twenty times the size of the Polish market.

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173 The fact that the annual reports of Tourism Ireland are expensively produced in three languages – English, Irish and Ulster Scots – suggests emphasis on cross-community parity of esteem rather than an external focus on global tourist markets.
An analysis of the structure of tourist expenditure provides interesting information on the behaviour and basic preferences of Polish and German tourists. In Poland, as opposed to Germany, expenditure on longer holiday trips increased significantly until the 2008 financial crisis. At the same time, in spite of the fact that an increase in expenditure on shorter, 1–3 day trips could be observed in both countries, Germany shows a far higher growth rate in this area. This means that the expenditure structure in Germany (as a mature market) reflects the trends observed in European tourism, among others, with a departure from longer trips in favour of shorter ones and an increased interest in health tourism. In turn, the structure of tourist expenditure in Poland reflects the fact that the Polish market is at the stage of development in the sense that the demand for tourist services is growing, but it is still very sensitive to economic fluctuations and Polish tourists still prefer domestic trips.

The Polish and German parts of the border region have very different economic characteristics, and this affects the nature of cross-border tourism. Although the German area of the border region is the least affluent part of Germany and struggles with the twin processes of population ageing and net outward migration, it still has double the level of GDP per capita compared to the western regions of Poland. However, the Polish area of the borderland is among the most affluent regions of Poland and it has a population of young people with higher education.

In much the same way that the Republic of Ireland is a more important source of tourism for the Northern Ireland market, the importance of the German market for Poland’s tourism is much greater than the importance of Polish tourists in the German market. An exception is the segment of business trips to Germany. Germany is Poland’s biggest export market and this creates considerable east–west business trips. The significance of Polish tourists for recreational and tourist trips to Germany as a whole is much smaller, although Polish tourists from western Poland are very important for the border states of Germany. In the next section we will see that a similar situation exists in Irish tourism, where tourists from Northern Ireland to the north–west region of Donegal are a vital element of that region’s tourism market. In other words, proximity is very important. In turn, Germans have been the largest and most important group of tourists in Western Poland. Specifically, what might be called ‘shopping tourism’ is very common. In this sense the Irish ‘cross-border’ shopping phenomenon, which we discussed in Chapter 9, is rather different. Given the short distances and the cultural and linguistic homogeneity, cross-border shopping is generally unrelated to tourism involving extended stays.

The Polish and German parts of the border region have to some degree a complementary tourism potential that holds out prospects for further development in the whole area. The eastern part of Germany has conditions for the development of city
tourism that are attractive to Western Poland due to its rich cultural milieu, the close proximity of Berlin, as well as the large number of historical sites and amusement parks that attract young tourists from Western Poland. Western Poland, in turn, is an area with an attractive natural environment and a high tourism potential, particularly for the development of health/spa tourism attractive to the more affluent (and ageing) society of eastern Germany. However, a necessary condition for realizing this potential is an upgrading of Poland’s image as a desirable tourist destination and an improvement in tourism and transport infrastructure.

Clearly the modern Irish tourism market, North and South, is rather different from that of the Polish-German border region tourism market. What the Polish-German example illustrates is that its border region has generated a dynamic of tourism growth driven by proximity, complementary attractions, and an openness to using tourism to heal old wounds. Proximity is important in the Irish case (as Figure 11.7 below shows). But Irish attractions, North and South, are more competitive than complementary, and old wounds are taking a long time to heal in a border region that was disrupted by the worst of the troubles.

11.4 Island tourism today

In Chapter 9 we described how phases of cross-border shopping were triggered by changes in cost competitiveness within the North and South. For example, when Southern cost competitiveness deteriorated as a result of exchange rate changes or changes in rates of indirect taxation, Southern consumers had higher incentives to make purchases of consumer goods in the North. Another channel through which loss of competitiveness can occur is wage rates. During the construction boom of the years 2000-2007 Southern wage costs rose sharply and created further pressures on the prices of goods and services produced within the Southern economy.

Tourism on the island shares many of the characteristics of the cross-border shopping phenomenon. When a region loses cost competitiveness through any combination of the exchange rate, tax rate or wage rate channels, not only does the inward flow of tourists diminish, but domestic tourists are more likely to substitute the foreign tourist destination for the local market. But since the tourism ‘service’ is more complex than a simple product that has a clearly defined and fairly exact substitute, the effects of deteriorating cost competitiveness are slower to manifest themselves and appropriate policy actions are often delayed.

Besides being under the influence of cost competitiveness factors, tourism on the island, North and South, is strongly influenced by purely external demand factors. For example, there was a sharp and prolonged contraction in the numbers of US tourists visiting the island in the period after the 9/11 terrorist attacks on the World Trade Centre and the Pentagon. And, of course, the global recession of the years 2009-2010, together with the slow recovery in many economies, also reduced demand for Irish tourist services.

Faced with a reduced demand, the two separate Irish ‘national’ tourist bodies have re-examined their longer-term strategies in an effort to position their markets to benefit from the stimulus to demand that an eventual general recovery in the world economy will produce. In the case of Fáilte Ireland, their strategic review covers the period 2010-2012. In it, there is a clear recognition that the downturn in overseas visitors that took place during 2009, together with pressure on disposable incomes at home, excess accommodation capacity in the hotel sector and a lack of credit from the banks, all contributed to a very painful season for the Southern tourism industry. After more than a decade of dynamic growth, Southern visitor numbers from key overseas markets such as Britain and the US declined significantly due to a number of factors, including adverse exchange rates (i.e. a strong euro and weak sterling and dollar). Although the traditional European markets performed relatively better, declines were recorded there also.

The enduring crisis in the euro zone has added to the general air of uncertainty in the recovery path of the world economy. Growth in the UK has weakened in recent months, and there is talk of a ‘double-dip’ recession. The US is recovering fairly robustly, but it must address its serious fiscal imbalance and the path to a full recovery is unclear. Adding to the uncertain future of Southern tourism is the domestic recession and the impacts of fiscal adjustment on domestic disposable incomes and jobs. As Figure 11.7 shows, the domestic market makes up about half of all demand for tourism services.
Two types of activities are undertaken by Fáilte Ireland: investment in infrastructure-related activities (to improve the supply-side of tourism) and increased marketing (to try to boost demand in existing and new markets). On the supply side, the key Southern priorities for the period 2010-2012 include:

a) Support for businesses that offer the greatest potential, particularly those with the sustainable ability to bring in overseas visitors;

b) Support ideas and innovation in tourism to improve competitiveness;

Figure 11.7: Source of tourists by Southern region (2009)
c) Provide a world-class visitor experience, based on high-quality tourist information, animation and interpretation.

On the demand side, activities include:

a) Identification and development of key destinations offering the greatest prospects for growth over the short to medium term;

b) Stimulation of demand in selected markets with a particular emphasis on home holidays and on business, sporting and cultural events as growth levers;

A similar strategic review of tourism in the North has been carried out by the Department of Enterprise, Trade and Investment (DETI) that tries to look ahead to the year 2020. In the draft version that is currently available, a very similar analysis of the contraction of the Northern sector since the 2008 recession is carried out. As might be expected, many of the same factors are at play in the North as in the South. The main difference is that the sector in the North is widely perceived to be still operating below its long-term potential in addition to suffering a cyclical contraction in demand due to the global recession. In other words, there is a continuing need for large-scale tourism-related investment if lost ground is to be made up for the years of the ‘troubles’, when there was only limited development of infrastructure-related facilities relative to the must larger investment carried out in the South. The impact of the ‘troubles’ is clearly seen from Figure 11.8, which shows the Northern share of out-of-state visitors to the island of Ireland.

Figure 11.8: Northern share of overseas visitors to the island of Ireland

In the pre-‘troubles’ era, the North attracted about one third of the total visitors. From the early 1970s this fell to about 20 per cent and remained at that level until the mid-2000s. The current challenge is to recapture the earlier share of all-island tourism through investment to improve supply and marketing to stimulate demand. In other words, the challenges North and South are very similar in kind, even if different in magnitude.

In Figure 11.9 we show the source of tourists in the North for the years 2002–2008. Over these years the share of tourists from Britain has declined from just over 70 per cent to just under 60 per cent. However, the share in the South has grown from 13 per cent in 2002 to 18 per cent in 2008, and is almost as large as the combined shares of the rest of Europe and the USA (21 per cent).

Figure 11.9: Source of external tourists to the North: 2002–2008

Based on a projected recovery scenario, where 2007 levels are restored in 2010, the forecasts for numbers and total expenditure by source of tourists are shown in Tables 11.2 and 11.3.

Table 11.2: Forecast Northern visitor numbers by source (thousands)

Once again, the importance for the North of the Southern market is clear, with numbers of Southern tourists to the North projected to reach 394,000 by 2013, which is almost 100,000 more than the combined totals from Germany, France, Italy, the
Netherlands, Spain and ‘other Europe’ and more than double the total for the USA. However, in terms of expenditure, the South is not as dominant due to shorter visit durations and lower expenditure rates per visitor.

**Table 11.3: Forecast Northern tourism expenditure by source (£m)**

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<th>Expenditure (£m)</th>
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However, although the level of strategic analysis of each of the separate Northern and Southern tourism sectors is very detailed, what is very surprising is that neither region features seriously in the strategic thinking of the other, except in terms of a source of demand for tourism services. As Figure 11.7 illustrated, the North is only a significant source of visitors for the North-West region of the Republic, where 18 per cent originate from the North, with 12 per cent from Britain, making a UK total of 30 per cent. In the Southern region of the Republic that is furthest from the North, the respective percentages are 1 and 16, giving the UK a total share of 17 per cent.

However, this is surely a consequence of the manner in which Tourism Ireland was set up and the constraints under which it operates, and shows that the observations of Henderson and Teague in 2006 discussed previously still hold. The role of Tourism Ireland in the island tourism market is a weaker version of the role of InterTrade Ireland in the island industrial strategy. Both organisations promote North–South co-operation and generate benefits. But neither are strategically important when compared to the power of their ‘national’ counterparts.
Part IV
The Future
We are now faced with the fact, my friends, that tomorrow is today. We are confronted with the fierce urgency of now. In this unfolding conundrum of life and history, there is such a thing as being too late.

Martin Luther King

Chapter 12: A new approach: the Border Development Zone

12.1 Development policy in a small, open economy

From the late 1980s, at the time of the start-up of the EU development programmes, and during the 1990s, the situation in the Republic of Ireland differed from that of the other three so-called ‘cohesion’ countries (Greece, Portugal and Spain), in a key aspect. Southern economic policy makers did not formally ‘regionalize’ their development strategies. It was not until the third National Development Programme (NDP 2000-2006) that a formal division of the Republic of Ireland into two separate regions was first undertaken.

Because of the small size of the Southern and Northern economies and the centralised nature of their respective public administrations, internal regional development is addressed to a very large degree by the policy decisions taken at the ‘national’ level. For example, ‘national’ or ‘sectoral’ Operational Programmes (OPs) of the first two Southern NDPs that were implemented between 1989 and 1999 had no specific and significant regional input. Only during NDP 2000-2006 was a modest effort made to put in place formalised regional planning processes organisations.

For the Southern NDP 2000-2006, two Regional Operational Programmes (ROPs) were designed, alongside the dominant national or ‘sectoral’ Operational Programmes. The effect was to designate the poorer of the two regions (the so-called, Border, Midland, West or BMW region) as Objective 1, while the more developed region (the so-called Southern and Eastern or S&E, focused on Dublin) was eligible only for a lower rate of transitional aid. The nature of the division was partially based on economic criteria but also on pragmatic political grounds.

A key recommendation of a preliminary investigation of investment priorities (Fitz Gerald et al., 1999) was the urgent need for a strategic spatial planning framework, since investment needs are not independent of the spatial pattern of development, and public investment in itself is a crucially important regional policy tool. Following a process of consultation and research, which started in 2000, the Southern government published their first National Spatial Strategy 2002-2020 (NSS) in 2002, which was both a statement of policy intentions and a blueprint for the spatial aspects of development in the South. Ireland’s internal regional disparities tend to lie on an East-West axis. It is the western and north-western regions that suffer from peripherality and underdevelopment, that have their origins deep in the island’s history, a situation that is made more complicated by the presence of an international border.

Southern internal regional problems were addressed to a very large degree by the national or ‘sectoral’ Operational Programmes of NDP 2000-2006. However, the special problems of the poorer western and north-western region which retained Objective 1 status, that were addressed by a specific ROP, should probably be considered as ‘second order’ policy targets. Devolving policy too much to the regional level in the South would run the risk making national policy incoherent and confused. On the other hand, retaining a purely top-down policy stance at the national level would run the risk of making regional outcomes inefficient and ineffective.

The strategic orientation of national economic policy making in the South over the past four decades has, with few exceptions, always emphasised the need to face the consequences of the extreme openness of the economy, to encourage export orientation towards fast growing markets and products, and to align the economy with all major European initiatives. Four broad domestic policy strategies accompanied the external reorientation of the economy. Of primary importance in the 1960s was the pursuit of policies designed to bring about a steady build-up of the quality and quantity of education and training of the workforce. Looked at in terms of the South as an economic sub-region of these islands, the low level of human capital, combined with an almost total absence of modern industrial experience, was regarded as the main barrier to growth. Next in importance was the
need for major improvements in the quality of the economy’s physical infrastructure, although early freedom of action here was severely constrained by lack of finance. The next barrier to development was a pervasive lack of competitiveness, and called for the facilitation of the growth of a competitive Southern business sector through improved management, quality marketing, better services, lower cost of utilities, and more systematic linkages with other complementary activities (or clustering). Finally, as it emerged from behind protective tariff barriers in the early 1960s, there was a need for a more stable domestic macroeconomic policy environment, where ‘stop-go’ budgetary changes did not disrupt long-term public sector and business planning.

Although these policy strategies were pursued, in one form or the other, since the late 1950s, the pace of policy design and implementation accelerated after 1989, with the advent of EU development aid and multi-year investment planning. EU-aided NDPs in the South permitted the greater focusing and intensification of previous policy efforts, rather than requiring a completely new approach to economic development. Unfortunately, no such focus appears to have yet emerged in the North.

12.2 Is there a need for regional policy?

As previously mentioned, there tends to be three main characteristic features of regional growth:

i. Economic activity tends not to take place uniformly over space, or to affect all sectors of the economy to the same extent. Rather it tends to cluster, both spatially and sectorally.

ii. Clustering provides evidence of increasing returns processes, i.e. doubling inputs more than doubles outputs. This justifies intervention by policy makers if these returns are to be exploited.

iii. Growth centres in cities or towns of above a certain size tend to interact with adjoining population centres and eventually generate even higher returns.

As a description of the dynamics of growth, the above points have wide application. The first element simply describes the physical realities of the cities, towns, villages and less populated hinterlands to be found in any country or region. The second element provides an economic explanation for why clustering occurs, and has been a very active area of research in industrial economics over the past decade (i.e., the ‘new’ growth, trade and spatial economic theories). The third element is a logical consequence of the first two and merely describes the interaction of two or more contiguous growth poles as their areas of influence begin to overlap.

We showed that a very early (pre-1960) approach to regional industrial policy in the South was unsuccessful since the normal processes of clustering and regional concentration were impeded both by the imposition of high tariff barriers and by a public policy of forced geographical dispersal of locally owned, import substituting firms. The only example of a self-sustaining ‘industrial district’ on the island of Ireland – the shipbuilding and textiles agglomerations centred on Belfast during the period from the mid-19th century to the early decades of the 20th – declined rapidly after the Second World War. The promotion of regional dispersal in pursuit of spatial equity goals was almost certainly at some expense to strict economic efficiency criteria.

It is clear that there were some very special circumstances in the early 1960s surrounding the Southern switch to trade liberalization and active encouragement of inward investment. First, the manifest failure of the previous protectionist policies had been so obvious that no political party or domestic lobby favored their retention. Second, the range of abilities and expertise available within the Southern public sector was considerable, in part as a legacy of previous incorporation into the UK, but there was a willingness to learn from European experiences, in particular the indicative planning experiences of France. Third, the completion of European reconstruction, and the growth in importance of the EEC, provided the opportunity to capture some of the rapidly expanding flow of American investment into Western Europe. Fourth, rapid advances in technology and declining transport and communications costs from the 1960s onwards facilitated the process of foreign investment...

by multinational corporations, which flourished spectacularly from the late 1980s.

The extreme peripherality and vulnerability of the Southern economy in the late 1950s forced its policy makers to become more thoroughly international in their outlook. One might characterize a key challenge of industrial policy making in any small nation or region as that of blending the techniques and insights of the predominantly economic analysis of what one might call the ‘outer’ business environment with those of the business analysis of the ‘middle’ ground of strategy. These two areas are often studied in isolation from each other by non-overlapping groups of researchers. Seldom are the two different perspectives looked at as being entirely complementary and mutually supportive. Seldom are they both invoked to guide policy makers.

At the level of the individual firm or corporation, strategy is usually formulated in a context where government policies are largely exogenous, and firms address the challenges of assessing the business portfolio and identifying strategic goals. The crucial role of management is to formulate a corporate strategy that aligns with the nation’s or region’s wealth-building strategy. So, this issue is usually examined largely from the point of view of domestic or regional companies adjusting to national strategy.

In the Republic of Ireland and Northern Ireland, however, causality as often as not runs in the opposite direction. In other words, the Southern and Northern industrial development agencies constantly scan the world for inward investment in high technology sectors. In the case of the South in the 1960s, even when the domestic environment was not sufficiently attractive to persuade leading-edge firms to locate there, information on firms’ expressed needs were fed back to the government by the IDA, and major policy changes could be executed quite rapidly.

A case of information feedback was the transformation of the higher education system in the mid-1970s, where massive resources were put into the enhancement of electronic engineering and chemistry to create a skilled labour force for potential inward investors. A more recent example was the provision of generous resources to the university system to fund basic research in the areas of electronics and biotechnology, when a lack of such skills was identified as a potential bottleneck to future investment opportunities. Thus, the national and regional wealth creation strategy in the South and North often needs to adapt to the requirements of firms in the global corporate environment, and not the other way around. Thus, the strategic challenges facing small open economies like the North and South are very different from those facing large developed nations like the US, Japan, Germany, France, and the UK as a whole.

Post-1960 industrial strategy in the South took place in an era of free trade and we characterised it as a process whereby the state development agency (the IDA), using a wide range of incentives, bid for subcontracting roles from global multinational firms and made at least some efforts to influence the allocation of these activities across the South’s regions. The success of inward investment in the South illustrates how changes take place rapidly in the international market place, many of which have served to return the focus of attention to economic ‘regions’ as natural units of production (Sabel and Piore, 1989). Discussions of industrial policy began to take account of how the environment within which firms operate had been changing rapidly, with important consequences for the growth of successful clusters of modern innovative firms (Porter, 1990; Best, 1990 and 2001).

During most of the 19th century industrial revolution the geographical region was a natural unit of economic activity and analysis. The nation’s economy was simply the sum of its parts and national economic development was only marginally controlled by central political authorities. For example, the growth of Belfast on the island of Ireland during the second half of the 19th century was an example of such a semi-autonomous process (Bardon, 1982). However, by the 1960s regions had become much less important as a focus of economic activity. According to Charles Sabel, the demise of the old regional economies came about because:

A system of mass production incorporated as subcontractors the pieces of the older regional economies which it had not already swept aside. (Sabel, 1989).
Sabel lists the crucial developments as follows (Sabel, 1989):

i. The emergence of conspicuously successful geographical regions, such as Silicon Valley and Route 128 in the USA, the ‘Third’ Italy, the ‘Second’ Denmark, Baden-Wurttemberg, etc. The South (or at least some of its more developed and urbanised regions) might be considered as a late entrant to this desirable club;

ii. The dramatic reorganisation of large multinational firms into many operating units with enhanced local autonomy;

iii. The convergence of large- and small-firm structures: the former splitting up into specialised units; the latter grouping around centralised facilities (laboratories, marketing agencies, etc.);

iv. The transformation of local governments from welfare dispensaries to job creation agencies;

v. The cooperation of trade unions in the industrial reorganisation at the plant or regional levels.

These changes have created a new form of local development that parallels emerging corporate patterns of behaviour (Sabel, 1989). Like firms, small regions know that they must survive in a turbulent economic environment. Like firms, they must accommodate volatility through flexibility. For regions, flexibility requires facilitating the recombination of resources among companies, so that the latter may re-deploy them internally. And as with firms, many regions renovate themselves only with the greatest difficulty.

High scores on empirical measures of international competitiveness are central to the attractiveness of economies like those of North and South. Such measures range from wage costs, output prices, profitability rates, etc., to wider measures related to product innovation, design, quality and reliability. Public policy can be invoked to influence an otherwise poor competitiveness position. The preferred approach in recent decades is through subsidies to labour, capital and energy, combined with lower rates of corporate taxation, improved physical infrastructure and raised levels of human capital. Southern state intervention in the 1960s was directed with vigour to address and enhance an otherwise average-to-mediocre level of international cost competitiveness, mainly through low corporate taxation, but also with a range of subsidies. Only in the late 1980s were strategic frameworks developed within which the above sources of national competitive advantage could be placed (Porter 1990; Best 1990 and 2001). Southern strategies, and to a much less extent, Northern strategies, had already been evolving along these lines since the early 1960s, even if all the implications were not fully understood.

A 1996 report of the Northern Ireland Economic Council (NIEC) examined the political and economic governance of four European regions: Jutland, Rhone-Alpes, Saarland and Abruzzo. It concluded that the most active regional governments are to be found in the most economically successful regions, and that their ability to exercise a high degree of pro-activity is predicated upon their location within national states characterised by decentralised systems of governance. Successful regions tend to be characterised by distinctive forms of local regulation and governance. They also have systems of governance which embrace enabling and facilitating institutions within the local state and civil society, as well as bridging the permeable boundaries between them and adjoining regions and states. Part of the problem of less successful regions is that they are locked into institutional structures that were relevant to an earlier phase of successful economic development but which now constitute a barrier to moving onto a new development trajectory. This, essentially, is the dilemma that faces the North and South, and particularly the cross-border region between them.

12.3 Entrepreneurial firms and cluster growth dynamics

To understand the industrial growth of a region, one needs to focus on entrepreneurial firms as the

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175 The analysis and monitoring of competitiveness is now a major and essential element of public policy-making in Ireland, in particular by the National Competitiveness Council. This was recently extended to regional competitiveness in a series of studies of Regional Competitive Advantage (Forfas, 2009).
engines of growth. We then ask two inter-related questions: where do new entrepreneurial firms come from, and where do new groups, sectors or clusters of firms come from? These are inter-related questions because each depends on the other: entrepreneurial firms drive clusters and clusters create opportunities for entrepreneurial firms, both existing firms and new entrants. This simple proposition informs our research methodology.

As described in previous chapters, to answer these questions we constructed a dataset of all companies in each border county. The source of the data is the FAME database of all business units in the South and North. The first step was to identify firms that have successfully constructed a niche in the global production system. The key to success is to develop a distinctive, hard to imitate, capability by which a firm meets customer needs. This involved searching the data set for growing companies or, if the data were not available, for companies that had either grown or were survivors. The second step was to scan the data on companies to search for sector concentrations by county. The purpose was to identify groups of firms that may exhibit ongoing or incipient cluster evolutionary processes. This includes searching for the appearance of new sub-sectors. The proposition here is that clusters can be the handmaiden for new entrepreneurial firms, which in turn foster the creation and growth of new sectors.

Examining spreadsheets of companies can yield important clues about such dynamic processes, but this exercise is not sufficient for answering our questions in two ways. First, it does not go inside the firm to consider strategy and capability development, since these considerations are important to identifying entrepreneurial firms. Second, the exercise only provides summary data on individual firms and nothing on inter-firm relations. What follows is a set of observations on entrepreneurial firms and cluster dynamics in the Irish border counties drawn from a combination of our company interviews and company dataset research. We look first at examples of entrepreneurial firms and the strategies they have adopted, emphasizing networking alliances, and second at the historical evolution of key clusters in the region and how they have influenced entrepreneurial activities in the region.

### 12.3.1 Entrepreneurial Firms

Firm strategy is important and a variety of strategies existed. We found examples of high volume production within single production units. Seagate (based in Derry City) produces on a scale that matches East Asian mass producers. Bose, while on a much smaller scale, has a one-piece flow, high-throughput, efficient plant in a niche market. Scale economies in segments of the dairy and poultry industry are also important. Nevertheless, scale economies alone were rarely the sources of competitive advantage. Flexible specialisation is the most common generic strategy. The common denominator was focus on a core capability but with a partner (or partners) for complementary capabilities – here we found creative applications depending upon context rather than a formulaic categorisation.

Most of the successful companies in the Irish cross-border region pursued a strategy of developing a distinctive product/service and constructed the production capability to deliver it. A number can be characterized as mid-size, indigenous multinational companies. Here we drew an unexpected lesson: these companies have radically reinvented themselves at least once as if they became a new firm. In fact, we might say that new firms were created out of previous incarnations of the same firm. Other times we find succeeding generations of the same firm in the form of the establishment of new out of old production systems. Walter Watson, for example, moved from steel fabrication of agricultural implements, to structural steel fabrication, to fabric mesh and pile cages, to cranes – all the while deepening the company’s core capability in steel fabrication. The transition to a range of reinforced steel products involved erecting a new, state-of-the-art production facility.

We found examples of ‘system integration’ strategies or a process of enterprise reinvention. In these cases the new management leveraged legacy skills and capabilities, but within the context of re-engineering the core production system, in order to take full advantage of new technologies and market opportunities. Often this was precipitated

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176 As a first approximation we think of entrepreneurial firms as “growth-oriented, innovation practitioners of aggressive management” (Livesay 1977). See also Best (1990).
by the transition to the second and third generation of family leadership. Simon Hunter, for example, established his ‘management service agent’ business model by seizing the opportunity of the internet and the web to redesign the system by which service uniforms are designed, manufactured and delivered. This transition required an alliance with an IT company to develop a web-portal system. But it also meant the construction of a new production process at Hunter Apparel and new service offerings that could become a resource for companies in other sectors. This process of increasing differentiation of capabilities and innovation has led to the creation of a new business system as envisioned by Simon Hunter. It also hints at how network alliances can be incipient clustering processes. The fact that Hunter Apparel is a successful company has created a new opportunity to form an R&D alliance to create a material with built-in functionality that could revolutionize medical services apparel.

The process of developing a distinctive capability is inter-locked with establishing ‘network alliances’. These alliances may be within other production units within a larger company (such as Feldhues, in Clones, Co. Monaghan) or they may be part of incipient clustering processes. In any case we have found that an ongoing process of focusing on core capability and partnering for complementary capabilities underlies or sparks increases in capability differentiation and derived innovation activities in the participating companies. These are examples of the dynamic between internal organisation and inter-firm relations. In the case of Castlecool, we found the emergence of an open-system business model in which a series of service activities in logistics and warehousing are shared to the mutual advantage of a range of enterprises. Here the advantages are not merely cost economies of scale and scope: Castlecool is an innovative company that enables its partners to focus on what they do best and, at the same time, enjoy the benefits of improved complementary business services.

12.3.2 Cluster dynamics

We turn now to case studies of cluster dynamics and regional development processes in the border counties. We start with four observations on links between entrepreneurial firms and the evolution of clusters:

a) Firms do not compete alone in the global marketplace but as members of networked groups of firms. For this reason we needed to examine network alliances and other forms of inter-firm relationships.

b) Firms compete in the global marketplace by leveraging the skills, capabilities and knowledge bases of the regions in which they are embedded.

c) Innovative firms make more than products: they advance the skills, capabilities and knowledge base of the region in which they conduct business. Moreover, the process by which innovative firms develop specific capabilities in pursuit of new market opportunities itself creates opportunities for other firms. In fact, even the failure to pursue emergent market opportunities by one firm may give rise to the establishment of a new firm. Paul Short, for example, who later established his own company (Castlecool), had previously been a finance manager for a company in the same sector.

d) The inter-firm processes by which skills, capabilities and knowledge are deepened within a region can trigger the emergence of new sub-sector growth opportunities. In this way, a region’s production base can be enhanced by transition from declining to growing sectors.

The detailed examples of cluster dynamics we studied in our research (mainly in food processing, aerospace, furniture and wood processing, timber frame housing and science-based clusters) are not meant to be exhaustive. Further research would certainly reveal many more. We have at least demonstrated that constructing and searching company and other datasets for regional concentrations of companies by sector can indicate ongoing or incipient cluster dynamic processes of new firm creation, techno-diversification and increasing capability differentiation. Industrial growth is not likely to happen without policies that foster these processes.

Food Processing

The leveraged impact that a network alliance can have on the production capability and evolution of a whole sector is illustrated by an example from food processing in County Monaghan. Established over a
century ago, the Town of Monaghan Co-op (TMC), a cross border co-op, today has a turnover of €150 million, the highest of any firm in the county. In 1975, Abbott Nutrition Limited, a division of Abbott Laboratories, a Massachusetts pharmaceutical, opened a baby formula production division, Abbott Nutrition Limited, in Cootehill, Co. Cavan, with 68 employees. Today it employs over 250. But this is not the end of the story. From the beginning it established a long term partnership with TMC to be the sole supplier of its primary ingredient, high quality liquid skim milk. Originally, TMC supplied 59,000 litres of milk a day but this grew to 500,000 litres, or 30 lorry loads, every day of the week. This is 30 per cent of TMC’s capacity.

This extraordinary partnership is over 35 years old; it has been a key contributor to the establishment of Ireland’s global leadership in baby formula production. Abbott Nutrition, along with two other Irish plants, constitutes three of the four largest manufacturers in the sector in the world. At the same time, the Abbott partnership has contributed to the upgrading of standards of Town of Monaghan suppliers, as exemplified by the following quote from TMC managing director Vincent Gilhawley.

When Abbott first started taking milk it was a bit of a shock for suppliers because the quality standards were so high. In the early days, the company actually paid us to employ extra laboratory staff to get us to the required standard. I believe we were the first co-op in the country to do somatic cell and antibiotic tests on milk. Every single load of milk has to hit the standard every time—there is no room for mistakes.

(Lavery 2007)

In recent years TMC has invested in the latest high-speed butter packing machinery and state-of-the-art continuous ink jet coding and dating systems to accommodate a production, packaging and printing output capacity of 50 million individual packs of butter. Partnerships with key customers such as Kerrygold, world-leading, high-tech suppliers such as Domino Printing, and consultative relations with employees have ensured that the introduction of new technologies would be a smooth transition. This inter-firm coordination role is neither market-led (‘invisible hand’) nor plan-led (by the ‘visible hand’ of management in vertically integrated enterprises) but network-led. It is not new or minor in the Irish context.

As noted above, Castlecool is another variant of how an individual firm can have a leveraged impact on a sector by influencing the productive activities of multiple inter-related companies. Crossgar’s establishment of Crossgar Foodservice, a third business unit in 1987, to offer a one-stop, single delivery service that includes not only poultry and meat but a full range of products, meant building a local supply base for fresh fruits and vegetables. Marketing and logistics for hundreds of small farms are handled by Crossgar. The result is like a ‘social flocking’, in which a hundred of independently operated production units are all pointed in the same direction and, at the same time, economies of scale in marketing and logistics are combined with the active market involvement of hundreds of micro operating units.

Aerospace

The aerospace cluster of Northern Ireland illustrates the long term evolution of a cluster and the opportunities it has created for the emergence and growth of co-located firms such as John Huddleston Engineering, noted above. In this case Bombardier (formerly Shorts) establishes the interface design rules that enable specialist suppliers to integrate components and parts into global production systems.

The origins of the aerospace industry of Northern Ireland were a consequence of the transition of the era of ship transportation to aircraft in the middle decades of the 20th century. In the process the shipbuilders Harland and Wolff became a major aircraft manufacturer. In 1916, H&W were awarded ‘learning aircraft contracts’ by which they produced 900 aircraft during World War I. They needed an airfield as a test facility which led to Aldergrove, completed in 1918. The transition was engineered in major part by the UK Air Ministry, which organized a merger with Shorts Brothers in 1936. Shorts moved to Belfast from Bristol in 1937, was nationalized in 1943, and was privatized in 1989 when it was

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177 The others are Wyeth of Askeaton, County Limerick, and Numico (Mairead Lavery, Baby boom in Cootehill, Irish Farmers Journal, 30 June 2007).
acquired by Bombardier, a Canadian snowmobile firm that has become a major supplier of rail passenger carriages and the third largest maker of civil aircraft in the world.

The aerospace industry, moreover, offers an example of a global open-system production network in which Bombardier/Shorts (Bombardier hereafter) is a regional hub. Bombardier today specializes on engine nacelles, the pod that holds jet engines, which it supplies to all jet engine manufacturers. It also specializes in composite, carbon-fibre technology used in fuselage construction and landing gear doors. As part of Bombardier Group, past activities such as aircraft and aeronautical design, and missile air defence systems, have been transferred or downsized.

Bombardier has been a source not only of contracts but of knowledge transfer and business development opportunities to local suppliers such as John Huddleston Engineering. The presence of Bombardier has presented a roadmap to make the journey to become a supplier of the leading companies in the global aircraft industry. Bombardier has demanded and thereby certified the transition to world class manufacturing performance standards. A large number of regional companies have made the journey. The journey has also involved an ongoing process of capability differentiation amongst suppliers and thereby advanced the regional skill and knowledge base. All of these companies supply multiple customers and most sell into several sectors.

Local networking partners located in the border counties include: Moyola Precision Engineering (County Derry), which supplies 5-axis detailed components, kits and sub assemblies; Mallaghan Engineering (County Tyrone), which designs and manufactures aircraft ground handling systems; B/E Aerospace (US and County Down), which designs and manufactures business class seats; Thompson Solutions (County Down), creator of unique seating design and configuration; Denroy Plastics (County Down), which supplies injection moulded components; and Ewart Liddell (County Armagh) and Ulster Weavers (County Down) both established in the 1800s but suppliers of headrests and towels into the present century.

Furniture and Wood Processing

Wooden furniture has been manufactured in Monaghan at least since the statistical survey conducted by Sir Charles Coote and published in 1801. The modern Monaghan furniture industry is captured by Mottiar and Jacobson’s genealogy covering the last half of the last century (Mottiar and Jacobson, 1998). A study of the recent period from 1973 to 2006 found that Monaghan and Meath have the largest concentration of furniture making firms in Ireland by a considerable margin (Heanue 2008). Unfortunately, 2006 was the last good year for Monaghan furniture makers; worse, most have since gone out of business and employment has plummeted. The exit from the industry was not only of the weaker companies but of the County’s anchor furniture manufacturer, John E. Coyle Limited. Coyle’s apprenticeship programme had been, historically, an unintended investment in the education of furniture entrepreneurs who had gone on to establish furniture companies in the region (Mottiar and Jacobson 1998).

178 Ewart Liddell was formed in 1973 by a merger between William Ewart and Sons which commenced business in Belfast in 1814 and William Liddell and Company which started in Donaghcloney in 1866. It was acquired by Baird McNutt in 2001.

179 Coote reported that “near Glennon is a thickly inhabited neighbourhood where about a hundred carpenters reside, who are constantly employed in furnishing the neighbouring fairs and markets with the several articles of country work and furniture; the adjoining wood supplies them with timber on very cheap terms” (Coote, Sir Charles Statistical survey of the county of Monaghan, Graisbery & Campbell, Dublin, 1801, p. 154; cited in Mottiar and Jacobson, 1998, p. 8).

180 In the year 2006, the furniture industry location quotient for County Monaghan was roughly 5 and slightly under 4 for County Meath; Leitrim was next at 3 followed by Longford at 2.5 (Kevin Heanue, 2008, ‘Measuring Industrial Agglomeration in a Rural Industry: The Case of Irish Furniture Manufacturing’, RERC Working Paper Series WPRES0: Appendix A).

181 The following have exited the industry in the past few years: S.F. Quinn Ltd., Glenmore Beds Ltd., Newcraft Furniture Ltd., Huenna Kitchens Ltd. and Turnwood Accessories Ltd. We estimate remaining employment in cabinet-making as follows: McNally and Finlay with 50, Góla with 45, Glenwood with 32, and Sherry Brothers, unknown. The numbers could be less.
The exit of Coyle signalled the virtual end of a furniture cluster in County Monaghan. Further examination of these companies reveals a characteristic that also proved fatal to the Derry apparel industry: an ‘autarchic’ or go-it-alone business model in which every firm made the same products and competed in the same markets. Whereas the Derry apparel industry all produced shirts, the Monaghan furniture industry produced ‘case goods’ or made cabinets. Both industries were once strong clusters, but they were not dynamic clusters driven by on-going processes of increasing differentiation within an open-system business model in which companies focus on a core capability and partner for complementary capabilities. Neither industry was a successful innovator and, in competition with dynamic clusters, neither was viable. The reason for decline was that the companies were part of a cluster that left them ill-equipped to compete with clusters located elsewhere that had made the transition to an open-system or flexibly specialized business model.

The demise of the County Monaghan furniture cluster reveals an important lesson about how we characterize clusters more generally. Often clusters are defined in terms of the existence of companies within a region operating in the same industry or related industries, of supplier firms, and of trade associations. But a static approach does not consider the extent of vertical specialization and capability differentiating processes amongst companies without which companies cannot implement world-class manufacturing (WCM) practices and thereby achieve competitive performance standards. Small and medium-size firms must focus on core capabilities in order to implement WCM practices. Specialization on a distinctive capability is a prerequisite to effective flexibility and efficient new product development. As noted above, the Monaghan region’s furniture companies sought to compete on the basis of new products and low costs, but they did not do so within a business system of flexibly specialized companies. Consequently, every effort to develop a new product only led to a decline in production performance. It meant product proliferation, an increase in scheduling bottlenecks, larger batch sizes and increasing inventories, and as a consequence higher costs, lower quality and longer product delivery times.

The root problems were structural. Companies designed new products but within an existing production system. Since they did all phases of production, they did not focus on a single core capability and partner for complementary capabilities. This business and production system had worked in the past. But it could not compete with European competitors that had evolved into an open-system business model of flexibly-specialized companies driven by and benefiting from ongoing processes of increasing capability differentiation. The latter proved to be more competitive in cost, quality, design and time to market (Best 1990).

But, fortunately, this is not the end of the story in the case of wood processing as distinct from the wood furniture industry. If the boundaries of the furniture industry are confined to domestic household furniture of the type that was marketed by furniture ‘multiple’ retailers, we find that little remains of the industry in Monaghan. But if we look to a number of sub-sectors of an expanded definition of the wood-processing industry, we find the emergence and growth of entrepreneurial firms that identified and pursued market opportunities that appear to have leveraged skills and perhaps deep craft knowledge from the region’s history as a furniture industrial district. In fact, this extended concept of the industry suggests that wood processing can remain a vital economic activity in County Monaghan and has considerable growth potential.

We described above the example of Bose, which has a small but highly skilled staff making cabinets for their top-of-the-range audio systems. It is an example of the application of world-class manufacturing practices. Its production system resembles and illustrates that of the Toyota production system. While it is a model factory, it is a model that required modification for application to specific circumstances. Wood as a material is particularly resistant to automated machining; the challenge is to combine deep craft skills with modern production practices. Fortunately some indigenous wood processing companies 

182 Mission-driven agencies such as the Centre for Competitiveness www.cforc.org can be highly effective at diffusing best practices such as TQM (total quality management), but they have to be driven by top management. Again, Bose is a good example of leadership in driving TQM from the top.
have pursued a strategy of flexible specialization consistent with leveraging the region’s skill heritage. Examples in the contract joinery sector (and one in shop fitting) include Essexford Joinery Works Limited, established in 1979, which employs 40 in Carrickmacross, Co. Monaghan. Kelly Brothers, founded in 1908, is the longest established door and window manufacturer in Ireland. Employing 65 in Monaghan, it is an example of the business model of flexible specialization. It has always worked with solid timber. At the same time it has pursued a strategy of combining craft skills with a focused production system engineered to manufacture door systems of the highest quality and to individualized specifications for both domestic and commercial customers. Instead of competing with Italian designed doors, it has maintained a policy of liaising with Italian designers for manufacturing in Monaghan.

Tru Wood Joinery has repositioned into a branch of the shop fitting industry, a commercial market relative of domestic furniture. Established in 1985, Tru Wood Joinery began as a manufacturer of bedroom furniture. Later, it became a partner of Waxy O’Connors, a Cork public house which built up a business of constructing pubs in the US by exploiting the brand name of Monaghan wood craftsmanship. The business has grown and today Tru Wood employs 30 as a specialist in complete interior fit-out of ‘Irish’ pubs in various parts of the world including the USA, Italy, Hong Kong and Japan.

Essexford Joinery Works and Kelly Brothers illustrate the advantages of the flexible specialization business model within the specialist contract joinery sector, and Tru Wood in the shop fitting sector. Tru Wood has the added advantage of the experience of diversification into foreign markets with strong growth potential. While no company in the sector is immune to the vicissitudes of the business cycle, particularly those in the construction industry, the distinctive capabilities and performance standards of these three companies ensures they have a competitive advantage.

Science-based Emergent Clusters

The successful entrepreneurial firms that we visited all have established network alliances, although not always with other companies. But some have a particularly strong impact on the regional scientific knowledge base. The success of Norbrook Laboratories in establishing a global niche in generic veterinarian pharmaceuticals does not seem to have fostered direct cluster dynamic processes. But it is likely that indirect positive effects on regional advantage may be found in alliances with higher education institutions which feed back effects on the pharmacology sector more generally. There may be an indirect link, as well, to the science knowledge base being advanced by Randox (based in Crumlin, Co Antrim), the rapidly growing, technology-driven, R&D intensive diagnostics company that has also developed a market niche in veterinarian drugs and services.

It may be, as well, that Randox has benefited from a shared basic research knowledge base with Seagate. The skill requirements of Seagate’s wafer fabrication facility led it to establish partner arrangements with Queen’s University Belfast (QUB) and University of Ulster (UU). The Northern Ireland Semiconductor Research Centre (an initiative of QUB) fabricates the unique integrated circuits that are co-designed with Randox.

These example also suggest that we many find other established and incipient entrepreneurial clusters in the border region. The case of the mobile crushing and screening equipment group around Dungannoon in county Tyrone is an example. There is also an emerging clean energy cluster around smart grid technologies (www.smartgridireland.org). The smart grid will be driven by an open-system business model in which the interface protocols will be publicly regulated much like the internet.

New sub-sectors are to be welcomed not only for direct employment impact, but the indirect effects that the increasing differentiation of capabilities contributes over time to both the depth and diversity of a region’s skills and knowledge base. For these skills and knowledge can both trigger and contribute to yet new sub-sectors.

183 Randox is a highly successful medical test equipment making company whose employment has increased from 80 in 2000 to the current 620 and with plans to create 250 jobs by 2014 (see Best 2000; Belfast Telegraph, 19 March 2011).
12.3.3 Cluster dynamics and emerging technologies

In summary, we have looked at ways in which entrepreneurial firms both contribute to the growth of the border region’s knowledge base and tap regional legacy capabilities, and in the process trigger the emergence of new sub-sector growth opportunities. We have argued that the evolution of clusters is about the cumulative and collective advance in skills, capabilities and knowledge base that accrue to a region by the ongoing processes of production and new product development conducted by its enterprises. Successful firms, in turn, leverage these skills, capabilities and knowledge resources, but within a process of enterprise reinvention to take advantage of new technologies and market opportunities.

We used the concept of system integration to capture the process by which firms reinvent their production system to take full advantage of changes in technology or market opportunities.

Here we are suggesting an analogous application of the concept to clusters. The idea is that sustainable regional growth depends upon the actions of entrepreneurial firms not simply to create new products and processes, but as harbingers of cluster transitions. Sustainable regional growth depends upon the periodic reallocation of regional resources to provide the resources to take advantage of new technologies and emerging sector opportunities. For example, Tru Wood shows how wood processing leveraged skills in a declining cluster can be used as a resource to strike in new directions.

The major virtue of an open-system business model is that it advances productivity by increasing capability differentiation and the resulting ‘improvement in the art’ (Adam Smith’s term for technology). But it also fosters greater technological and sectoral diversity, which in turn enhances the resilience of regional economies to external disruptions. Finally, and equally importantly, an open-system business model is itself an enabler of new entrepreneurial firms. The existence of networks of enterprises along a product delivery chain, for example, drives down the barriers to entry as a new entrant can focus on a single stage or activity.

The examples of cluster dynamics we selected are not meant to be exhaustive. In fact a number of others may illustrate the same themes equally well. The case of the mobile crushing and screening equipment group around Dungannon in County Tyrone is of particular interest. But further research would certainly reveal many more. We have at least demonstrated that constructing and searching company datasets for regional concentrations of companies by sector can indicate ongoing or incipient cluster dynamic processes of new firm creation, techno-diversification and increasing capability differentiation. Industrial growth is not likely to happen without policies that foster these processes.

12.4 The future of regional manufacturing activity in Ireland

To the extent that some regions appear to have benefited less from the success of manufacturing on the island, and the border region specifically, we need to understand what the future is likely to hold. A basic characteristic of recent economic policy in the South is that policy makers have discarded those areas of economic management which they believe are best handled within larger blocks – like the EU – and refined those remaining policies that address the specific local efficiency of the supply side of the economy (education, training, competitiveness), as well as issues related to equity and social partnership. Such policies will always retain essentially regional and local characteristics.

Paul Krugman suggested that economies can be viewed in two different ways: as a national economy or as a regional economy (Krugman, 1997). The facts that one is examining may be the same, but the national or regional perspectives will make a big difference to what one believes is important. Regionality involves more than small size and dependence on external trade. Krugman suggests that what makes the South as well as its regions resemble, say, Massachusetts, is that Southern labour markets as well as product and capital markets are very open. Here, it is in sharp contrast to many other small EU states and their regions. In some ways it is also in contrast to the North.

It is when he turns to examining the self-reinforcing nature of Southern success that Krugman comes...
close to the issues that will be remain central to the management of all small open EU national and regional economies in the future. Krugman suggests that the Southern experience is a working out of what economists refer to as regional Marshallian externalities, i.e.:

(a) An initial clustering in urbanised areas of similar industries (mainly foreign owned and in the areas of computer equipment and pharmaceuticals) supported by local suppliers of specialised inputs subject to economies of scale.

(b) These clusters generated a local labour market for skilled workers which further facilitated the growth of the cluster. Education reforms (in particular the establishment of the Regional Technical Colleges in the South, later renamed Institutes of Technology), as well as the human resource policies of the EU Structural Funds, were crucial at this stage.

(c) Spillovers of information further encouraged growth in the electronics and pharmaceutical sectors and provided the basis for additional clustering effects, often in traditional areas that benefited from new technologies (e.g. food processing). To facilitate this stage, the improvements in physical infrastructure and in the productive environment supported by the EU were crucial. Some of the benefits at this stage moved out from the main urbanised areas into satellite towns and their hinterlands.

(d) A consensual process of social partnership was put in place from 1986 onwards in the South to ensure that there were as few losers as possible in the economic restructuring that accompanied such a virtuous circle, with the result that growth was less likely to be choked off by industrial unrest as the social partners negotiated over their respective shares of added value. Although there were valuable lessons to be learned from wider EU experience in this area, the policies actually put in place were domestic in origin and national in focus.

However, Krugman drew attention to some of the risks to which he considered the South’s successful regions were exposed. First, the dynamic foreign manufacturing base was concentrated on a narrow range of technologies that were fast moving towards maturity. Second, the policy initiatives that ensured an advantageous ‘first mover’ status in the early 1960s may not now be sufficient to facilitate the inevitable switches to newer technologies since other countries and regions have been learning by watching Ireland doing!

The more successful Southern regional economies were the ones which grew up around the larger urban centres. This had come about since the 1960s in spite of the long-term aim of industrial policy to reject Buchanan-inspired growth poles and disperse the benefits of FDI throughout the country. Clearly a policy of remaking the island into something resembling a single conurbation is as impracticable as it is undesirable. Hence, high technology activity is likely to continue to cluster about a limited range of large centres of population. The aim of policy in the future needs to be to ensure that the more remote geographic areas continue to be facilitated in their efforts to link into these urban growth poles through the development of physical infrastructure and the identification of sectors that can thrive in non-urban environments.

12.5 Wider European connections

In the late 1980s the significance of the Irish border was gradually changing and the practical examination of future possibilities was beginning to attract the attention of, and to be treated seriously by, policy makers and strategists in the public and private sectors. In 1991 George Quigley and Liam Connellan of CBI and CII, the business confederations in Northern Ireland and the Republic, first articulated the galvanising concept of the ‘island economy’. Coming to terms with this concept after over 70 years of effective separation presented a radical challenge to deeply entrenched attitudes.

The South, of course, is such a small and centralised state that its regions are not in any way separate or ‘devolved’ from the nation state, in the way that Scotland, Wales and Northern Ireland are within the UK. What the study of the South during the 1980s and 1990s demonstrates and illuminates was how policy makers in a small, open, underdeveloped economy could move in a determined way to integrate into the emerging EU Single Market and make use of the Irish–EU link to its developmental advantage.
Research on the challenges faced by the Irish border has the potential to open up a whole range of additional interesting political–economic and social configurations of great relevance to the specific issues concerning that border, but also of wider interest within a newly enlarged EU which abounds in analogous border challenges. For example, since the North is peripheral within the UK economy, this characteristic has encouraged and facilitated the study of regional policy formulation within a large nation state like the UK, in a way that would not have been feasible within the much smaller and more tightly integrated South. Second, the North enjoys some scope for distinctive regional policy-making, so this permits one to examine the extent to which local policy initiatives might be designed and implemented to offset any specifically regional disadvantages (such as the North’s industrial decline and its peripherality).

A third interesting characteristic of our island is that the North-South land border separates the island economy into two distinct policy regimes: one, a sovereign state with considerable scope for local initiatives; the other a region of a sovereign state, where policy planning is dominated by the metropolitan concerns of the much larger British economy. Such asymmetries are very common throughout Europe, and the consequential development challenges of vital importance. So, from the perspective of economic policy research methodology, far from being dull and provincial, this island was an exciting test-bed or microcosm of post-1989 Europe. One just had to learn to look at it in a different and more creative way.

12.6 Towards a Cross-Border Economic Development Zone

There were some very positive findings from our research project, but also many negative findings. Positive findings included the identification of some extremely successful and entrepreneurial manufacturing enterprises in the border region and the intelligent manner in which they made full use of the single island market (within the Single European Market), the more open post-Belfast Agreement environment and the dramatic improvements in some aspects of North–South physical infrastructure. However, we also found many aspects of the border region economy that suffered from the peripheral nature of the region, the economic policy implications of the border, and the interaction of these two issues. The first aspect – peripherality – is shared by other regions of the island that are remote from large population agglomerations. The second aspect – the border-related policy fault line – is unique to the region. But it is the interaction of peripherality and the border that presents the unique challenge to policy makers if the border region is to be re-integrated into the Irish, Northern Irish and island-wide economies, and is to seek out and implement policies that address these exceptional challenges.

It was clear at the time of negotiation of the 1998 Belfast Agreement that there was only limited willingness to create an island-wide industrial development strategy that would bring together the two separate development agencies in Dublin (the IDA plus Enterprise Ireland) and Belfast (Invest NI). What was put in place was InterTradeIreland, whose policy remit was to maximize the gains from North–South trade and business co-operation. In other words, its focus was on the whole island and not specifically on the narrower border region, and, from its Newry base, it operated in the margins of the ‘national’ development agencies and other institutions based in Belfast and Dublin.

For the foreseeable future the separate operation of the main Northern Ireland and Republic of Ireland development agencies is a fact of life, although a degree of co-operation does take place, mainly in the sphere of island marketing as distinct from island-wide industrial strategy. For regions located internally within NI and the South, ‘national’ development strategies operate fairly efficiently, and incorporate and encompass a wide range of other institutions and agencies that have a development remit (e.g. local government – county and district council – development activities, chambers of commerce, higher education institutes, institutes of technology and colleges of further education, training centres, etc.). Our research highlighted the negative consequences of this situation for the economic revival of the economy of the specific border region. We now need to move to the next

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stage and develop ways in which the negative consequences of these policy fault lines might be mitigated.

The need for a new development strategy for the border region arises because its development is caught between two conflicting perspectives. On the one hand the ‘national’ development agencies have a remit that legally obliges them to focus on their own jurisdictions, and they have different policy instruments and institutional frameworks that make it difficult to deal with cross-border issues, even when there is political willingness to do so. On the other hand, the local government administrations and other regional institutions that operate in the border region do not have the resources (financial and institutional) to overcome the twin challenges of the peripherality and ‘border’ problems that are holding back development. The fragmentation of local government organisation in the border region, as well as the three-way division of existing local authority-based cross-border co-operation (East Border Region – EBR, Irish Central Border Area Network – ICBAN, and North West Region Cross Border Group –NWRCBG), compound the problem of fragmented cross-border development initiatives.

Any new approach to cross-border development will need to advance proposals for the more efficient and effective use of ‘national’ and ‘local’ development resources in a manner that is consistent with current legal and institutional constraints on the island. Specifically, it needs to address how local government (on both sides of the border) should reinterpret its role in encouraging and supporting cross-border development through a better understanding of how development can take place in a region that does not benefit from the advantages enjoyed by more ‘central’ regions clustered near the larger population agglomerations on the island. Public services need to operate more efficiently in identifying activities that can take advantage of ‘good’ characteristics of the cross-border region, which include manufacturing and other strengths that were not always understood in past national and regional development planning. The central organising framework of such a strategy is likely to be a cross-border ‘Border Development Zone’, the rationale for whose existence stems from the twin disadvantages of peripherality and ‘border’ policy and institutional fault lines that demand a uniquely targeted approach that is different from and more serious than challenges facing other peripheral regions of the island.

In his closing address to the ‘emerging findings’ conference (‘Reviving the Border Region Economy at a time of Peace, Devolved Government and International Recession’) of this Cross-Border Economic Renewal research project in Cavan in November 2001, the former Managing Director of IDA Ireland, Padraic White, characterised the development dilemma of the border region in a way that complements and reinforces our own research findings:

My proposition is that the immediate border areas risk being further ‘stranded’ economically for a number of current reasons including the following:

a) Central governments in both jurisdictions are grappling with European economic stagnation and while focusing on national economic revival, regional priorities and especially ‘peripheral’ border regions fall down the pecking order of priority;
b) The public budget cut backs will result in virtually no current discretionary spending in border regions and very little capital investment;
c) FDI is increasingly concentrating on the large cities and metropolitan areas where the companies are more confident of getting a mix of skilled personnel as their projects in Ireland become more research and skilled based;
d) The national development agencies are not sufficiently geared to respond to the particular challenges of the border regions;
e) The current higher level of incentives permitted under EU regional state aids in the border regions in the Republic expire in 2013 and may not be renewed subsequently.

He went ahead to advocate the recognition that the immediately adjoining border areas have common economic threats but have a strong common interest in maximising their joint strengths, and that the district councils and counties along this ‘Border Development Zone’ can drive economic development.

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by co-operation and sharing successful ideas. He identified current bilateral initiatives in border areas that could form the initial basis of a Strategic Development Plan along the entire border area from Derry/Donegal to Newry-Mourne/Louth which could build on four key sources of indigenous enterprise and growth:

a) SME enterprise in goods and services with an export potential;
b) Tourism and recreation;
c) Agriculture, food and fish processing;
d) Low carbon initiatives, energy saving and renewable energy.

The goal of the ‘Border Development Zone’ will be to stimulate a form of development that is uniquely adapted to the region, making maximum use of current ‘national’ resources (where politically feasible) and stimulating the evolution of local resources and expertise of the kind that were identified during our Cross-Border Economic Renewal research project. The measure of success of such a policy initiative will be the rebalancing of the border region economy, and particularly of the north-west and mid-border regions, so that it is less dependent on external financial subvention, and is able to generate resources for development internally from a revitalised small-scale manufacturing and service sector base that has the potential for higher external sales and ultimately a greater international export potential.

There are likely to be three key dimensions to the establishment of a ‘Border Development Zone’. The first dimension is spatial, to characterise the extent of the border region economy, defined as the cross-border region where the twin challenges of peripherality and ‘border’ policy fault lines need to be addressed. Earlier research has shown that such a region is unlikely to coincide with any simple collection of existing county or district council boundaries.

The second dimension is sectoral, to identify a range of sectors which are uniquely suitable and adaptable for promotion within the ‘Border Development Zone’. Examples will include high technology and environmental manufacturing in the NE cross-border region, which is a rapidly developing source of activity; advances in food processing, as exemplified by a range of important existing clusters in the mid-border region; and a search for new manufacturing and service specialities in the NW region, which has suffered greatly from the decline and virtual extinction of its previous specialisation in clothing and textiles.

The third dimension is institutional, to identify the kinds of co-operative policy frameworks and actions that will be needed in the ‘Border Development Zone’ if it is to have a greater prospect of participating in island-wide prosperity. Our previous research has suggested that failures here tended to arise as a result of knowledge deficits (e.g. imperfect understanding of the structure of regional cross-border economies); institutional jurisdictional issues (e.g. legal constraints on the operation of ‘national’ development agencies); policy and administrative gaps (e.g. small and under– resource local government development functions and capacities); a lack of regional development focus by the higher educational establishments and an inability to achieve close cross-border synthesis between them; and weaknesses in non–governmental socio-economic agencies (e.g. chambers of commerce, the IBEC–CBI Joint Business Council, etc.). The objective here will not be to design new institutions from scratch, since neither the resources nor the political will are likely to favour such a root and branch approach. Rather, it will be to propose ways that elements of the existing institutional policy framework can be improved and refocused in order to overcome the weaknesses caused by coordination failure, mainly by articulating a shared vision of the challenges faced within the ‘Border Development Zone’.

The combination of these three objectives – spatial, sectoral and institutional – will provide a better basis for dealing with the exceptional challenges of the border region. For example, the identification of specific infrastructural deficits (such as the proposed bridge across Carlingford Lough to permit the integrated development of tourism in both regions, or the upgrading of the road network connecting the north-west region to other road networks on the island) is best carried out where the spatial dimension is explicit, the sectoral issues are a key justification, and the institutional dimensions are supportive and facilitating. The three objectives provide the natural context within which to generate specific development proposals, to do so in a way that facilitates the objective evaluation of
likely achievable benefits, and to ensure that the appropriate institutional framework is in place to implement policy decisions.

Specific examples of areas of co-operation identified by Padraic White in his conference address included: campaigning for progression of the A5 route from Aughnacloy to Derry which is relevant to connectivity through and within the border zone; joint co-operation between Enterprise Ireland and Invest NI in promoting clusters of industry in the food sector, renewables and high-tech start-ups in the border zone; and capitalising in a more structured way on the know-how and graduates of the Institutes of Technology in Letterkenny, Sligo and Dundalk and the University of Ulster and further education colleges in the NI border area. He concluded with the vital observation that:

Local authorities in the border zone have the power to drive economic development more than they or others suspect if they pro-actively use the powers, funds and leadership role they have in their territories. With a coherent strategic border plan, capitalising on their existing cross border networks and initiatives, they can make substantial progress themselves in identified growth areas. With such a plan they can be persuasive in winning support from their Governments and from the EU and its funds.

12.7 A single island economy

In his speech to the 1992 Annual Conference of the (then) Confederation of Irish Industry, Sir George Quigley stated that:

I find no difficulty with the proposition that Ireland is - or should be - an island economy.

A case can be made that one of the main legacies of the unhappy history between the two parts of Ireland, and between Ireland and Britain, has been an inferior level of economic performance since partition. Indeed, the island as a whole continues to under-perform today. The usual explanations and excuses stress factors that appear to be internal to the two regions (e.g. a lack of entrepreneurial spirit, the small size of domestic markets, a tradition of out-migration, civil unrest, etc). In truth, many of these factors are related to an economic divide of the island that predated political partition by over half a century.

We saw in chapter 2 that Ireland’s misfortune was that when the late Industrial Revolution arrived in the middle of the 19th century, it was largely confined to the north–east corner of the island, centred on Belfast. Although economic historians still debate the complex causes of this phenomenon, the fact remains that the sundering of the then engineering/industrial North from the agricultural/food processing South destroyed almost all possibility of building intra–island synergies. To a large extent, this is still the ‘island economy’ that presents us with problems and challenges.

A misunderstanding of the idea of an ‘island economy’ is that, literally, it seems to advocate an inward-looking insularity. However, Sir George Quigley’s challenge was to widen our understanding of the role of small regions and small states in the increasingly integrated global economy, drawing on the ideas of the Japanese business strategist, Kenichi Ohmae, who wrote:

In Adam Smith’s day, economic activity took place on a landscape largely defined – and circumscribed – by the political borders of nation states: Ireland with its wool, Portugal with its wines. Now, by contrast, economic activity is what defines the landscape on which all other institutions, including political institutions, must operate. (Ohmae, 1995, p. 129)

On the global economic map, the lines that now matter are those defining ‘natural economic zones’ that represent no threat to the political borders of any nation. The defining issue is that each such zone possesses, in one or other combination, the key ingredients for successful participation in the global economy. In the words of Robert Reich, US Labour Secretary (Reich, 1993):

The real economic challenge ... [of the nation] ... is to increase the potential value of what its citizens can add to the global economy, by enhancing their skills and capacities and by improving their means of linking those skills and capacities to the world market.

Political leaders, however reluctantly, must adjust to the reality of such zones if they are to nurture faster
economic growth. The Belfast Agreement era has created an unprecedented opportunity for progress in the development (or redevelopment) of the island as an economic zone in the way Ohmae and Reich describe. Far from insularity, this is effective and relevant global thinking.

Will the invisible hand of the market guide both economic regions of the island towards an optimal level of economic cooperation and integration, or is the very visible, and often clumsy, hand of government needed? Here, the unionist viewpoint seems to favour market forces over any degree of formality in cross-border institutions and planning. Indeed, their political logic obliges them to assert that the present level of North-South economic cooperation is already optimal.

The opposite economic viewpoint is that the present situation between North and South is an example of a failure in markets, to which businesses and consumers must accommodate. An obvious physical example is the inability or unwillingness to interface the road planning systems on both sides of the border. Another manifestation is the comparatively low level of telecommunication traffic between Dublin and Belfast, compared with the high level between, say, Dublin and Cork. However, the most damaging economic incompatibility between North and South probably relates to the two very different industrial promotion systems on the island. This serves to perpetuate further an already high degree of industrial mismatch and works against the creation of all-important synergies.

Evolution from a process of separate development towards cooperative and coordinated development is a reasonably natural one. Elements of North–South economic coordination are already beginning to arise as a direct result of the Belfast Agreement and under enthusiastic pressure from the business sectors of both regions. However, further evolution from coordination to a single ‘island economy’ will be much more difficult and, if it ever takes place, is likely to be spread over an extended period of time. Nevertheless, since there is considerable overlap between the coordination and single island economy categories, such an evolution could be smooth and natural, particularly if accompanied by parallel evolution towards greater federalism within the wider European Union. Ultimately, coordination could phase into total harmonization of policy making, where lack of such coordination currently imposes barriers of any kind to faster island growth.

Any move from a ‘coordinated’ island economy to a ‘single’ island economy will require the harmonization of nearly all aspects of fiscal, monetary, industrial and labour market policies. The context for such a process of harmonization between North and South will depend on the future evolution of political settlement within Strands 1 and 2 of the Belfast Agreement. Furthermore, it will be conditioned by the nature and extent of European Monetary Union and further evolution towards a federal Europe. The politically minimalist case is one where the North continues to be a region of the UK, with very limited policy autonomy. In such a situation, the context of North-South policy harmonization would shift to the issue of policy harmonization between the South and Britain. Although there remains scope to handle issues arising between the South and Britain on a bilateral basis, a more logical and encompassing context would be provided by the European Union.

Where both Britain and the South were full participants in an evolving euro zone, such a process of policy harmonization within these islands simply becomes a sub-set of a wider European process. However, the fractious debate on the euro zone taking place both within Britain and between Britain and the rest of the EU, gives one an insight into how economics and politics become inter-connected, and how full policy harmonization ceases to be economic and becomes political.

Moves towards economic policy harmonization on the island of Ireland is seriously disrupted by the fact that the UK and Ireland chose different approaches to Economic and Monetary Union. In earlier chapters, we saw just how disruptive this policy fault line could be in times of turbulence in currency markets. Thus, the North-South policy harmonization agenda is continuing and will continue to be dominated by Northern Ireland’s East-West agenda.

Difficulties with policy harmonization between these islands, and the sub-set of North-South problems within this island, are regional examples of wider issues within the EU as it attempts to move down the road to full EMU and afterwards to forms of closer political federation. Indeed, it has been suggested that the future development of
Ireland’s island economy offers the European Union a unique ‘laboratory’ in which to work out some basic requirements for the continued evolution of the Union, so there is scope for policy influence in both directions (D’Arcy, 1995).

For example, the ‘co-habitation’ issue between the UK and Ireland is likely to be more acute than perhaps along any other internal border within the EU, with the South inside the euro zone and the UK outside. At another extreme, the politically maximalist case of the single island economy is one where both North and South could come together in a confederal, federal or united Ireland. Although some of the simple budgetary arithmetic of such arrangements has been explored by the New Ireland Forum, the likely preconditions for the maximalist case have never been demonstrated in any realistic way (New Ireland Forum, 1984). History teaches us that close political and institutional ties between regions tend to come about in situations where there is a high degree of trust. However, North–South relations, and particularly inter-community relations within the North, are classical examples of what Francis Fukuyama has described as ‘low-trust’ societies (Fukuyama, 1995).

Fukuyama uses the concept of trust to mean “the expectation that arises within a community of regular, honest, and cooperative behaviour, based on commonly shared norms, on the part of other members of that community”. Communities depend on mutual trust and cooperation seldom arises spontaneously without it. People who do not trust one another will end up cooperating only under a system of formal rules and regulations, which have to be negotiated, agreed to, litigated and enforced. Fukuyama concludes that “widespread distrust in a society ... imposes a kind of tax on all forms of economic activity, a tax that high-trust societies do not have to pay”.

The logic of our economic analysis in this study points to the politically maximalist case as the one most likely to optimize the potential of the island economy as distinct from the potentials of the two regions as separate entities. Thus, for example, operation of a single industrial promotion system would facilitate sectoral integration and clustering; infrastructure planning would proceed in a unified and coherent way; and the risk of disruption of trade and economic integration by exchange rate fluctuations would be much reduced. However, it is impossible to quantify the economic benefits of such an arrangement relative to the minimalist case with any convincing degree of certainty. Rather, the maximalist case is only likely to be relevant if the two traditions on the island are able to build a sufficiently high degree of trust. The earlier stages of economic and business interaction between the two regions of Ireland are likely to assist in building this trust, but economic benefits in the narrow sense are never likely to be the main factor in determining how far political integration in the island proceeds.

If the North remained constitutionally part of the United Kingdom, then a further necessary condition for evolution of a single ‘island economy’ would be a common Irish and British approach to EU policy initiatives such as EMU. However, if the North were to achieve a form of devolution from Britain that effectively amounted to independence, then the single island economy could come about even in the context of British deviation from EMU. Robin Wilson, in a striking phrase, points out that “getting more Northern Ireland is linked, rather than antithetical, to getting more all-Ireland” (Wilson, 1996). Notions of island-wide economies of scale and of scope urgently need to be researched and developed in the light of history and in view of the potential presently opening up for evolution of a single ‘island economy’. It is too easy to dismiss this potential lightly, emphasizing the small size of the island and the even smaller size of its two component parts.

It is also too easy to assert that if such opportunities existed, they would have been previously realized between Britain and Ireland rather than between the two parts of Ireland (Roche and Birnie, 1995). Recent insights into economic growth have emphasized what is called ‘path dependence’: i.e. that if a region embarks on a process of growth, then that success tends to feed on itself and expectations can become self-fulfilling. An evolutionary process of the above
kind is one way of exploring the possibilities for guiding the ‘island economy’ along a path of self-sustained growth whose benefits accrue to all and to remove barriers that history has placed on realizing the island’s potential.
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