ECONOMIC DEVELOPMENT ON THE ISLAND OF IRELAND: DIFFERING EXPERIENCES OF NORTH AND SOUTH

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Abstract. Historical context is all-important in any understanding of Irish economic development. This paper summarise key background issues concerning the two economies on the island between the dramatic industrialisation in the late 19th century of the region that now makes up Northern Ireland, and the equally dramatic modernisation of the Republic of Ireland in the late 20th century. Turning to the state of the two economies today, we show that a fortuitous consequence of the last decade of fast growth in the Republic of Ireland is that the two economies face each other across the North-South border with a much greater degree of social and economic parity than they have done at any time since partition in 1920. Turning to the future, the paper explores how the island economy might evolve during the next couple of decades, at a time when the EU economy is likely to be increasingly integrated.

Introduction

Policy-making in Ireland prior to 1922 took place in a context where the island as a whole was an integral part of the United Kingdom. The impact of the Government of Ireland Act of 1920 on subsequent policy making in the two regional economies of the island was to create two separate policy regimes. However, traces of the earlier policy legacy in the form of adherence to many UK policy norms lasted in the South until well into the 1960s (Fanning, 1978). In the North, however, the regional parliament at Stormont never really exploited, developed, or even tested the limits of its regional policy autonomy (Birrell and Murie, 1980).

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The impact of direct rule after the abolition of Stormont in 1972 worked towards an even closer integration of Northern Ireland into the UK at the very time when the Republic of Ireland was switching its political and economic focus away from London and towards Brussels. However, Irish and UK membership of the EU after 1973 provided a context for the removal of all tariff barriers between North and South, a process that had got under way prior to 1973 with the signing of the Anglo-Irish Free Trade Agreement of 1965.\(^1\) The Single European Market of 1992 was designed to remove all non-tariff barriers between EU member states and hence between the Republic of Ireland and Northern Ireland. Economic and Monetary Union (EMU) has the potential for further policy harmonisation between the Republic of Ireland and the UK, should the UK eventually join. Thus, political and economic currents have resulted in the North-South policy-making environment today having a high – if less than complete – degree of commonality.

It is of considerable local and international interest to investigate the barriers to accelerated growth and development in the island economy of Ireland that arise from partial market completion and the policy mismatch associated with the existence of an international border between the Republic of Ireland and Northern Ireland. Some of these problems are common to all regions of nation states that have international land borders and are the subject of discussion and analysis at the EU level (AEBR, 1981).

However, the Irish situation has some unusual and unique features that make it of more general interest:

i. A history of mistrust and lack of communication between the two regions that has only recently begun to unfreeze and change;
ii. The geographically peripheral location of both regions with respect to their core markets in Britain, the rest of the EU and elsewhere;
iii. Asymmetries in the roles and power of policy-making institutions in both regions that have made previous North-South co-operation difficult to foster;
iv. Regional economic structures that have evolved in different ways

\(^1\) For an account of the reduction of tariff barriers affecting North-South trade that was carried out during 1956-62 prior to the Anglo-Irish Trade Agreement, see Kennedy (1998).
within the island, reflecting among other things their different external relationships – Northern Ireland with London and the Republic of Ireland increasingly with Brussels and Frankfurt.

The Island Economy of the Past

The Act of Union

Ireland was on the move in the latter half of the 18th 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. From the start of the 19th century the Act of Union fundamentally changed the terms on which Ireland would relate to the global superpower on its doorstep. After the Union, policy making adjusted to control from London and there was no protection from the full rigours of competition with the hegemonic British economic giant.

The calamity of the Great Famine of 1847-49, the causes of which had been building up for decades, tore 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, 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 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 from the north. By setting in train a tradition of emigration (“exit”), it dampened internal pressures for economic reform and innovation (“voice”).

Economic Geography and the Emergence of a North-South Divide

Ireland’s industrialisation was never to emulate Britain’s generalised

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2. 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: 43-50).
economic and technological leap forward. Rather, it was to involve a few specific sectors (brewing, linen, shipbuilding), and selected locations (mainly Belfast and Dublin), and bypassed 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. Recent advances in economic growth theory and economic geography provide compelling insights into how the area centred on Belfast developed rapidly as the only region in Ireland that fully participated in the latter phases of the Industrial Revolution (Krugman, 1991). The greater Belfast region took on all the attributes of 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 closely interrelated products.3

**Economic Relations of the Island with the Rest of the World**

The political incorporation of Ireland into the United Kingdom after 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 Figures 1 and 2 for the case of the South. This figure shows the UK-Irish trade position from just after partition in 1920 to the year 1950. The proportion of Southern exports going to the UK showed only a very small reduction from 99 per cent in 1924 to 93 per cent by 1950.

The failure of the South to diversify away from an almost total export dependence on the UK had serious consequences for its economic performance when compared to a range of other small European countries.4 The reluctance of the new Southern administration to deviate too much from British policy norms is well documented (Fanning, 1978). The inability of the new Northern administration to deviate in any significant way at all from UK-wide policy simply reflected the extremely limited scope for local autonomy that was provided for in the 1920 Government

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4. 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 political-historical narrative.
of Ireland Act under which its local parliament (Stormont) functioned (Birrell and Murie, 1980).

The difficulties faced by the South in breaking free from the economic embrace of the UK can be understood using the concept of “webs of dependency” (Wijkman, 1990). It was hardly surprising that these islands formed a particularly strong web of dependency, continuing from Southern independence well into the 1960s. While Southern policy makers may have been less assertive and innovative was desirable, 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 Britain. 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: 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 3 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 below.

**Figure 3**
Southern Trade with the UK: Export and Import Shares 1960-92
The Island Economy Today

Radical transformations have taken place during the past three decades in both economies of the island, introducing dramatic differences in the relative performance of North and South. Overlaying these differences is the civil unrest that casts a shadow over the recent economic development of Northern Ireland. Five key factors are involved in the South’s dynamic performance (Barry, 1999):

i. Steady build-up of human capital after the educational reforms in the 1960s;

ii. Major improvements in physical infrastructure, particularly since 1989 as a result of the EU Structural Funds;

iii. Extreme openness of the economy, its export orientation to fast growing markets and products, together with benefits stemming from the completion of the Single European Market and from massive FDI inflows;

iv. Changing demographic structure and the role of inward migration in preventing skill shortages; and

v. Stable domestic macroeconomic policy environment.

The role played by large-scale British financial support in sustaining the standard of living in the North has perhaps served to mask the true nature of the differences in performance between North and South. The situation in the North would appear to be rather less advantageous than in the South for each of the above five factors. The problems associated with the selectivity of the Northern education system and the effective exclusion of many from higher education are beginning to be understood (Breen et al., 1998).

Economic openness is less beneficial to the North than is the case in the South, since the North’s export orientation is mainly to the slower growing British markets and to more traditional products. The overhang of the large financial subvention and fears about its possible reduction has introduced uncertainty to Northern medium-term economic planning. Northern demographic trends remain out of line with the European norms to which the South has converged. In fact the only exception where the relative position of the North is better than the South is in the state of physical infrastructure, and this is changing rapidly.
**North-South Strengths and Weaknesses**

It may be useful to summarise the strengths and weaknesses of both economies as they are today. In the case of Northern Ireland, a series of structural weaknesses in the economy are to some extent a legacy of the past industrial strength of the region, and have three main characteristics. First, there is a continued dependence on the traditional sectors like textiles, shipbuilding, clothing and footwear, which are particularly vulnerable to low-cost competition and changing demand. Second, there is a deficit in education levels (particularly at the middle and lower ends) that contributes to low productivity and high structural unemployment (Breen *et al.*, 1999). Third, a structural dependence on the public sector to sustain employment has emerged as a consequence of an inability to attract high quality foreign direct investment in sufficient quantity to offset the decline in domestic traditional industry (Bradley, 1996; NIEC, 1992).

The difficulties experienced by policy-makers in attempting to address these problems are reasonably well understood. There has been an unwillingness (or inability) of the Northern Ireland authorities to make a break with previous areas of specialisation. There is only very limited degree of policy autonomy within NI, which effectively prevented the emergence of region-specific policy variations from national policies designed to address region-specific structural problems. Finally, the disruption caused by violent conflict – together with related problems of increased labour market segmentation and discrimination – made it much more difficult to mobilise resources of both private capital and labour to bring about fundamental changes (Smith and Chambers, 1991).

A very different pattern of behaviour has been experienced in the Republic of Ireland. Here, the main background factors underlying present growth could be summarised as follows. Exercising its policy autonomy, there was a dramatic break with protectionist policies from the late 1950s, and much of the artificially sustained inefficient indigenous industry was subsequently allowed to fail (Bew and Patterson, 1982). A tax-based competitive environment was created that was attractive to foreign direct investment, while simultaneously working to improve the level of domestic physical infrastructure and human capital.
This policy, after a slow start in the 1960s, eventually proved to be spectacularly successful by the mid-1990s, to the extent that about 60 per cent of manufacturing output in the Republic of Ireland is now produced by foreign-owned multinational enterprises (Barry and Bradley, 1997). Finally, the economy of the Republic of Ireland was largely untouched by the destructive and disruptive aspects of the Northern violence. Where costs associated with conflict-related spillovers had to be borne, they were containable and mainly in the areas of increased security in border areas.

A sustained period of peace is necessary to facilitate structural reform and change in Northern Ireland, and should permit the economy to accelerate its growth and development. However, the existence of two economies on the island of Ireland is likely to impose constraints of this process unless barriers are identified and removed. We now turn to consideration of barriers that arise due to market failure and policy mismatch.

The Island Economy of the Future

Strategic Issues

In a wide strategic context, the two regions of the island appear to be characterised by very different economic policy environments as they plan for their futures. In the case of the Republic of Ireland, its strategic policy orientation towards the future is relatively benign at present and could be characterised in terms of five key issues:

i. The continued creative use of its modest but significant scope for national policy-making autonomy against a background of a progressive ceding of elements of macroeconomic fiscal and monetary policy autonomy to the institutions of the EU.

ii. A continuation of the crucial policy orientation of the past decades concerning openness to inward investment using a mainly tax-based system of industrial incentives and associated improvements in physical infrastructure and human capital.

iii. Further modernisation of the industrial base through targeted foreign direct investment in high technology areas as well as through steady expansion of indigenously-owned industry.
iv. A likely continuation of the process of “decoupling” of the economy away from the earlier heavy dependence on the UK as a result of its sustained systematic and pro-active orientation towards participation in EU policy initiatives.

v. The pursuit of steady improvement in economic performance with the aim of converging systematically towards the standard of living of the wealthier core economies of the EU as well as bringing about greater social equity.

The strategic policy context for Northern Ireland is more difficult to characterise with any degree of precision since the region has only recently experienced a sustained period of peace and is in the process of designing and implementing major changes to its system of political and economic governance. Nevertheless, from a strategic point of view the region faces major policy challenges and will have to address some potentially serious issues.

i. The continuation into the medium term of a situation where the region has limited regional policy-making autonomy combined with a lack of political consensus as to the wisdom of seeking out and using greater policy autonomy in the context of the Good Friday Agreement.

ii. The continued use of a range of policy instruments (particularly in the area of indiscriminate grant-based industrial incentives) that have not proved particularly effective in the past.

iii. Difficulties in modernising its manufacturing base away from its traditional specialities, e.g. textiles and clothing towards higher value-added products.

iv. A continuing dependence on Britain as the main external sales destination, with potentially undesirable consequences in terms of slow and erratic growth in the longer term and with the UK remaining outside EMU for the present at least.

v. Economic peripherality within the UK, one of the lowest standards of living among the UK regions, combined with the possible perpetuation of dependence on external financial aid in the form of the “subvention”, with consequential lack of dynamism in the regional economy (i.e. a Mezzogiorno problem).5

5. The Mezzogiorno region of southern Italy has given its name to a phenomenon of underdevelopment and dependency that arose originally when the much richer northern Italian regions gave generous long-term income transfers to the south, which had an unintended side effect of locking the south into a low efficiency, low productivity, low entrepreneurial dependency (CEC, 1993).
Economic Development on the Island of Ireland

The fact that the Northern and Southern strategic policy orientations are so out of alignment is likely to have disruptive consequences for planning and executing moves towards the completion of the island market economy. While there are likely to be many positive aspects to the evolution of North-South relationships over the coming years, there will be negative aspects as well. In very general terms, the strategic policy environment of the Republic of Ireland would appear to be more favourable at present than the situation facing Northern Ireland. There remains the possibility that, in the absence of explicit and concerted North-South co-operative initiatives, there will be a tendency for a continuation of the previous process of essentially separate development of the two regions and an inability to complete the island economy, even as conventional North-South trade continues to expand. In the absence of appropriate island-wide policy making forums, there is likely to be a lack of focus and urgency in addressing the related problem and consequences of policy mismatch. There may be a tendency to accept the continuation of the economic isolation and internal peripherality of the immediate cross-border regions.

In the light of the differing strategic policy making contexts of North and South, we need to understand how the process of market completion is progressing on the island. Guided by the mainstream EU material from the Cecchini (1988) and the Monti (1997) programmes of Single European Market (SEM) research, it is possible to isolate three main areas of the island economy where market completion continues to be hindered due to the presence of the border.

The first (and most direct) involves the direct spatial disruptive impacts of the physical presence of the border itself. The second concerns the emergence of different industrial structures in Northern Ireland and the Republic of Ireland. The third follows directly from structural mismatch in the industrial area and involves the consequential distorting impact of the border on conventional North-South trade.

**Physical Border Problems**

An obvious barrier to the full market completion of the island economy is, of course, the physical existence of the border itself since 1922. The Single Market in the EU has now removed all remaining non-tariff
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barriers that were border-related, and goods and services can now pass through the border with little or no disruption other than problems related to security whenever violence resurfaces within Northern Ireland. However, this does not mean that the border has ceased to be of any significance for economic development on the island.

A continuing legacy of the border is that the development of physical infrastructure on the island is a long drawn out process and the disruptive impact of the border is therefore likely to endure for a long time. The physical infrastructure of the island for most of this century was developed within each region in isolation from the other, with little or no account taken until recently of how it could be best co-ordinated to maximise all-island business and economic developmental needs (Smyth, 1995). Moreover, the border has created areas of internal peripherality and cut regions off from their natural economic hinterlands, e.g. the north-west region (centred on Derry) and the north-east region (straddling the border between Newry and Dundalk).

Industrial Structure

Overall manufacturing employment shares in Northern Ireland and the Republic of Ireland are fairly similar, though the South has a far higher concentration in high technology industries. The Southern situation reflects the much more significant contribution of foreign direct investment, which has raised productivity and profitability substantially. Indirect information on the indigenously owned sectors suggests greater similarity, North and South.

Table 1 shows the manufacturing employment shares for the main UK regions as well as for the Republic of Ireland, disaggregated into three broad sub-sectors: Food, Drink and Tobacco; a traditional sector consisting mainly of textiles, leather and wood products; and the remainder, which consists broadly of modern industries. The similarities between Scotland and the Republic of Ireland are apparent, where both have a higher than average concentration of employment in Food, drink and tobacco and a share of modern manufacturing employment that lies between that of England and Wales (at the high end) and Northern Ireland (at the low end).
**Trade Patterns**

A key relationship between the economies of Northern Ireland and the Republic of Ireland 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. Our characterisation of the Northern and Southern productive structures – with the South having a more modern industrial base – has important implications for trade and we now turn to these issues.

Table 2 shows the export proportions of Southern trade with the North, Britain and the rest of the EU for the year 1997. Table 3 shows similar data for imports.

**Table 1**

*Traditional and Modern Industry - 1996 Employment Percentage Shares*

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>England</th>
<th>Wales</th>
<th>Scotland</th>
<th>NI</th>
<th>RoI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, drink and tobacco</td>
<td>11.7</td>
<td>11.0</td>
<td>10.5</td>
<td>17.9</td>
<td>18.6</td>
<td>20.5</td>
</tr>
<tr>
<td>Traditional</td>
<td>16.4</td>
<td>16.0</td>
<td>14.4</td>
<td>17.6</td>
<td>29.8</td>
<td>15.0</td>
</tr>
<tr>
<td>Modern</td>
<td>71.9</td>
<td>73.0</td>
<td>75.1</td>
<td>64.5</td>
<td>51.6</td>
<td>64.5</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Business Monitor, 1996 for the UK and regions; CIP, 1996 for the Republic of Ireland.*

<table>
<thead>
<tr>
<th></th>
<th>Exports to NI</th>
<th>Exports to Britain</th>
<th>Exports to rest of EU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.9%</td>
<td>21.4%</td>
<td>45.0%</td>
</tr>
</tbody>
</table>

*Source: Trade Statistics, December 1997, CSO*

These tables show that exports from the South to the North account for about 3 per cent of total Southern exports, while exports from the North to the South account for almost 10 per cent of total external sales.
Table 3  
Republic of Ireland: Import Shares by Origin: 1997

<table>
<thead>
<tr>
<th>Imports from NI</th>
<th>Imports from Britain</th>
<th>Imports from Rest of EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.8%</td>
<td>30.9%</td>
<td>24.2%</td>
</tr>
</tbody>
</table>

*Source: Trade Statistics, December 1997, CSO.*

Data for external sales shares for the North are shown in Table 4. Unfortunately, data on imports by the North are not available since regional data are not collected in the UK.

Table 4  
Northern Ireland: External Sales by Destination, 1996/97

<table>
<thead>
<tr>
<th>Sales to Britain</th>
<th>Exports to RoI</th>
<th>Exports to rest of EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>50.7%</td>
<td>9.6%</td>
<td>20.6%</td>
</tr>
</tbody>
</table>

*Source: Made in Northern Ireland Sold to the World, NIERC/DED/IDB, 1998*

In other words, the South is over three times more important as an export market for Northern firms than the North is as an export market for South firms. On the other hand, Britain is over twice as important a market for Northern firms than it is for Southern firms, which are more oriented towards trade with the rest of the EU. However, Britain is more important for the South as a source of imports than it is as a destination for exports from the South, i.e., the South runs a trade deficit with Britain. However, the South runs a trade surplus with the North, which totalled about £IR 300 million for the year 1997.

The composition of bilateral trade between the North and the 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 weights for SITC 0 (Food, Drink and Tobacco). Perhaps surprisingly this phenomenon has not received the attention it deserves, but of course simply reflects the underlying industrial struc-
ture in Northern Ireland compared with the Republic of Ireland. We saw earlier in this section that the two industrial structures are very different: the South having a concentration in modern high technology sectors, and the North specialising 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 (Monti, 1996). This two-way trade simply cannot easily take place between North and South, given the contrasting production structures.

The Island Economy of the Future

Harvard-based business strategist Michael Porter has suggested that four interacting characteristics are essential for competitive success: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry (Porter, 1990). What is required to upgrade the four Porter competitiveness factors on the island of Ireland is not for the North and South to develop separately, as two competing regions, but to facilitate their coming together, building on strengths and eradicating weaknesses so that genuine synergies can be realised for the mutual benefit of both North and South. Such synergies would ultimately be reflected in the formation and development of deeply embedded, inter-connected and supportive island industrial activity. This would be seen in the emergence of industrial clusters of firms and industries feeding backwards and forwards off each other, industrial districts centred around specific industries in specific geographic regions and with the potential to increase local sourcing, and industrial networks involving the exchange between firms and industries of mutually-supportive information and knowledge.

The unfortunate reality, as we have already argued, is that both North and South have attempted to improve their competitive advantages in isolation from each other. Given the political climate of the last few decades, this process of separate development is easy to understand. The type of public and private sector planning and consultation needed to build a Porter-type strategy would have demanded levels of co-operation that were never realistically going to be politically feasible as long as the conflict in the North continued. However, the changing and more positive political situation offers many opportunities for development,
which to a large degree are already being taken by the business sectors, through the CBI in the North and IBEC in the South.

**Conclusion**

The Northern and Southern economies face very different challenges in the years ahead. For the North these could be summarised as follows. There is the question as to how big the “peace dividend” is likely to be and how it will affect the structure and performance of the economy. There is a need for economic restructuring, involving expansion of the private sector (manufacturing, market services and agriculture) and shrinking the public sector (at least as a share of the total economy). Within manufacturing there is also a need for restructuring, involving growth of the modern high technology sectors and reducing dependence on the traditional sectors, particularly textiles. After three decades of violent conflict, labour markets have become segmented both geographically and along religious lines. The result has been the perpetuation of differential unemployment rates regionally and between the two main communities (Murphy and Armstrong, 1994).

A series of rather different challenges face the South. There is a need to address capacity constraints (particularly in the labour and housing markets) after an extended period of fast growth. It would be prudent to try to balance the dependency on foreign direct investment with growth in the indigenous sector to ensure the continued success of the Irish economy as part of the global economy. It is also necessary to proceed rapidly with deregulation of public utilities (telecoms, electricity, etc.) to ensure lower costs to the exposed trading sectors of the economy. Finally, there is a need to address regional imbalances and problems associated with the relatively poor performance of the immediate cross-border areas.

As policy makers North and South face these challenges, the progressive centralisation of macroeconomic and monetary policy-making in Brussels and Frankfurt will result in a greater focus on the differential performance of regional rather than national economies within the EU. The difference between national success and failure will come to depend increasingly on the ability of regional economies to mobilise their re-
sources and policy making powers to improve their competitive performance. Regions that do not already have such devolved powers within their own nation states, or who do not seek them, are likely to be at a severe handicap relative to regions that have extensive devolved or federal policy making structures and are prepared to use them wisely and creatively.

In terms of decreasing importance, the following are the main forces driving economic growth and development, North and South. First, the continuation of peace and the full implementation and operation of the new institutions that arose from the political settlement. Will peace unleash the suppressed potential for faster growth or merely prevent further decline? Second, the need to continue to embrace globalisation and economic openness. Third, the search for locally focused policies to improve the level of human capital and physical infrastructure. Fourth, developments in the local policy-making environment concerning increased autonomy (in the case of Northern Ireland) and progressive ceding of authority to EU institutions (in the cases of the UK and the Republic of Ireland).

In identifying different options for economic governance we have paid particular attention to one aspect of the problem, namely, the nature of North-South relationships. In doing so, we are suggesting that the North-South axis is as important as another obvious alternative, namely the East-West axis. A concentration on a North-South axis is perfectly consistent with the fact that the major external markets and sources of inward investment for both regions presently lie, and will continue to lie, outside the island.

It is also consistent with the fact that even in the hypothetical situation of a single economy on the island, it would still be one of the most open economies in the world. But openness in terms of trade, in a situation where island production is dominated by foreign multinational branch plants, is not a position of strength. We suggest that resolution of economic problems on the North-South axis may be a necessary condition for encouraging growth of strong indigenous firms, including Irish multinationals. The inability to do this in recent decades could be termed Northern Ireland’s “Southern” problem.
Another misunderstanding of the idea of an island economy is that, quite literally, it seems to advocate an inward-looking insularity. However, Sir George Quigley’s (1992) characterisation of the island economy challenges us to widen our understanding of the role of small regions and small states in the increasingly integrated global economy. The Japanese business strategist, Kenichi Ohmae (1996), wrote:

“Economic activity is what defines the landscape on which all other institutions, including political institutions, must operate”.

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. Far from advocating insularity, an “island” economic perspective is perfectly consistent with global thinking.

References


