STRATEGY 2010:
PLANNING ECONOMIC DEVELOPMENT IN NORTHERN IRELAND

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In March this year, *Strategy 2010* was published by the Northern Ireland Department of Economic Development (DED), and offered by Minister of State Adam Ingram to the Northern Ireland Assembly and the wider community for discussion. While a consultation process around the future of the Northern Ireland economy had been initiated in 1997, a specific commitment was made to the strategy in the *Belfast Agreement* in April 1998. In paragraph 2(ii) of the section dealing with 'Rights, Safeguards and Equality of Opportunity', it was stated that the British Government would make rapid progress with:

>a new economic development strategy for Northern Ireland, for consideration in due course by the Assembly, which would provide for short and medium-term economic planning linked as appropriate to [the] regional development strategy (*THE AGREEMENT*, 1998, p. 19).

*Strategy 2010* is an important report, coming as it does at a crucial juncture in the development of a new era of political stability in Northern Ireland and it is likely that it will influence debate and subsequent economic policy development. Hence, it is crucial that the report be critically evaluated and that its content be openly discussed by all those with a stake in the future economic and social development of Northern Ireland.

*Strategy 2010* arose out of a political process, one in which economic affairs played only a small part. However, this is not to deny the lively debate that has taken place around the Northern economy, and the pages of *Regional Studies* in recent years are testimony to this. It is important that the future economic development of Northern Ireland be placed clearly in its political context. For example, the strategic future of the Northern Ireland economy is perceived in rather different ways by the two main Northern communities: Unionists with a
reluctance to depart in any way from continued full regional integration into British economic thinking and planning; Nationalists with an aspiration to build future economic progress on a pragmatic blend of North-South as well as East-West co-operation. *Strategy 2010*, by ignoring this issue, has failed to give leadership on a defining problem whose resolution will be a key determinant of the future success of the Northern Ireland economy.

We examine *Strategy 2010* under three broad headings: (i) analysis of the extent to which the economy departs from the desired state painted in *Strategy 2010*’s vision statement; (ii) diagnosis of how and why any departure from more desirable outcomes may have arisen; and (iii) prescription as to how public policy and private resources might be mobilised to move the Northern Ireland economy closer to the vision.

**Analysis of the Northern Ireland economy**

*Strategy 2010* has a vision statement for the economy that seeks:

> A fast growing, competitive, innovative, knowledge-based economy where there are plentiful opportunities and a population equipped to grasp them (*STRATEGY 2010*, p. 9).

On the basis of much research over the past few decades, and despite unparalleled levels of government funding and intervention, the economy is far from realising such a vision. Unfortunately, the analysis offered in *Strategy 2010* is shallow and fails to get to grips with key phenomena. Obvious starting points, such as an evaluation of government policy or the impact of over twenty-five years of political and violent conflict, are either ignored or touched on only in passing. Indeed, an inexplicable omission is any reference to earlier strategy documents from the past two decades, such as *Pathfinder* (DED, 1987), *Competing in the 1990s* (DED, 1990) and *Growing Competitively* (DED, 1995), not to mention the various
strategy documents of the development agencies, all of which have evolved over time and have been the focus of intense study and debate. Instead, the report attempts to shed light on current economic conditions by looking anew at influences on modern economies, the international outlook and the Northern Ireland economy in both aggregate and sectoral terms.

With regard to influences on modern economies, Strategy 2010 correctly identifies the rapid globalisation of economic activity as the primary factor that will set the future context for accelerated growth and restructuring in Northern Ireland. The opportunities offered by globalisation are obvious, with international trade growing at over twice the rate of local GDP, but these benefits can only be realised if the local economy can obtain access to export markets by having a high degree of competitiveness, measured in the very widest sense.

Two means through which improved local competitiveness can be built are identified: adoption of the latest production technologies, and an increase in the skill and education levels of the local work force. Other influences examined (the rise in services, a shift towards more flexible work patterns and the growing concern with the quality of life) are not independent of the consequences of globalisation, but rather follow as a logical consequence of it and of rising living standards. They lie downstream of competitiveness-led growth and do not necessarily need to be part of the upstream strategic planning. A deeper treatment of the nature of competitiveness, as well as a broader, more inclusive, exposition of how international competitive strengths can be built in Northern Ireland is urgently needed if the correct global context for the regional economy is to be understood.

With regard to the international outlook for the Northern economy, the report contains little new strategic thinking about the nature of the future relationship of the local economy with the external world. For a regional economy, a local concern for the health and dynamism of the external economy will have two distinct but complementary aspects: (i) how external
markets are going to sustain buoyant demand for exports from Northern Ireland; and (ii) where is foreign direct investment (FDI) into Northern Ireland likely to come from.

In a short to medium-term perspective, the list of dominant export destinations and the sources of FDI are unlikely to switch dramatically from the position today. Consequently, the British market must continue to be of central concern for Northern Ireland since it is the destination of over half of external sales and is the source of the bulk of inward investment. Given this, the report treats the nature of, and relationship with, the British market in a very casual fashion. For example, it provides two conflicting explanations for the slow growth of UK productivity: over-regulation, and a group of other issues that range across low investment, macro-economic instability, increasing inequality and low skills. Unfortunately, no attempt is made to form a judgement as to which explanation is more correct, or what the differential consequences might be for the Northern economy. In this vital area, Strategy 2010 has a serious credibility problem that stems from its failure to draw critically on the best professional economic and industrial research expertise and advice in an open and transparent way.

The section of the report that deals with the UK economy (a mere four pages) contains a crucial assertion that certainly colours and probably constrains the thrust of the entire report:

The main determinant of economic activity in Northern Ireland is the level of activity in the rest of the UK. An economic development strategy for Northern Ireland therefore needs to be set within, and be consistent with, the overall thrust of national economic policy (Strategy 2010, p. 62).

This, in a nut-shell, is Northern Ireland’s development dilemma. Either it sticks closely to UK economic policy and institutional norms and jogs along, sometimes above, other times
below UK average performance, or it strikes out and (so to speak) seeks boldly to go where no one has gone before. The Republic of Ireland, making use of its limited but crucial policy autonomy, followed the latter course in the late 1950s. Policy makers took a strategic decision that the dominance of the UK market (destination at that time of over 95 per cent of Irish exports) was unlikely to provide a suitable context for Irish development, modernisation and faster growth. Tax varying (or, more precisely, tax rebalancing) powers were a crucial element of policy making, especially with regard to the attraction of FDI, and the centre-piece of the industrial incentive system was initially a zero rate of corporation tax. However, equally important were reforms in education, progressive improvement in infrastructure, evolution of social partnership arrangements, enthusiastic embracing of European Union (EU) initiatives and – after many false starts – the creation of fiscal stability.

Almost the whole explanation of the recent aggregate performance of the Northern Ireland economy can be summarised as follows:

Northern Ireland and Britain share common fiscal, monetary and exchange rate policies;
Britain is Northern Ireland’s main external market and the (British) Exchequer makes significant transfers to Northern Ireland to enable the region to maintain UK level of provision (STRATEGY 2010, p. 69).

The huge size of the British Exchequer financing (the so called subvention) serves to influence and colour every aspect of the Northern economy, a fact that is acknowledged only partially and subliminally in Strategy 2010. The subvention directly supports employment in the Northern public sector to the extent of about 33 per cent of total employment, compared with 22 per cent in the UK as a whole (about the same in the Republic of Ireland). The subvention also directly supports incomes of the unemployed, the retired and the sick, as well
as providing a high level of public housing, health and education (over and above direct public employment aspects). These might be termed the primary impacts of the public sector.

However, secondary impacts of Northern Ireland’s public sector activity on the structure and behaviour of the local private sector are of equal, if not greater, importance relative to the primary impacts. For example, subvention finance sucks in imports, and explains much of the buoyancy of the retail sector. Northern manufacturing has come to be made up predominantly of small firms, oriented mainly to supplying the domestic market, which is in turn sustained to a great extent by direct and indirect demand arising from public sector activity. For example, the fact that the Northern economy emerged relatively unscathed from the British recession of the early 1990s is due in the main to the large size and cushioning effects of automatic and discretionary public expenditure stabilisers. The buoyancy of activity in the Northern manufacturing sector relative to Britain is also largely due to the much higher level of subsidies and grants, and, therefore, has little to do with local competitiveness in any underlying sense. There is much more going on here than simply the technical operation of the Barnett formula and the provision of regional finance on the basis of regional need. Unless and until the dominant and pervasive nature of public finance in Northern Ireland is better understood, analysis will be misleading, diagnosis will be flawed, and policy prescription will be ineffectual.

Strategy 2010 devotes some consideration to sectoral aspects of the Northern economy, but this material is marred by a very uneven presentation of data. For the electronics sector a detailed table of employment, turnover and productivity is provided for the most recent five years (1993-1997), but not for any of the other ten sectors examined. Hence, it is difficult to develop any feel for the different structures of the key sectors and make any comparisons. For example, the textiles and apparel sector employs 23,000 people (about a quarter of Northern manufacturing employment) and is not only a low wage, low profit industry, but appears to be
in long-term decline. It would have been useful to be able to compare its fundamentals with those of electronics, a sector dominated by foreign firms and which is export-oriented, high profit, and with a bright future.

**Diagnosing the reasons for success and failure**

Two chapters of *Strategy 2010* are devoted to diagnostic aspects of the Northern Ireland economy, where the report indicates its views on the nature and extent of Northern success (opportunities) and failure (challenges), as well as setting indicative planning targets (vision).

Perhaps the greatest success of the Northern economy is that it gives the outward impression of functioning in a relatively normal fashion in spite of prolonged and severe disruption from violent conflict. In part, this can be explained by the availability of financial transfers to boost public sector activities so that the negative consequences of the inevitable decline of private sector activities were mitigated. In the 1950s and 1960s, Northern Ireland attracted a substantial level of FDI to replace the shrinking (but still important) staples of textiles and heavy engineering. This investment was predominantly in sectors where the North already had a comparative advantage, e.g. artificial fibres. Unfortunately, this advantage effectively vanished with the onset of the oil-price rises of the 1970s, and a wide range of labour intensive industries across northern Europe in general migrated to the low cost centres of southern Europe and Asia.

Peace is identified as the first and most important opportunity for the Northern economy. However, conditions of peace are likely to facilitate faster economic growth rather than guarantee it. Growth, if it comes, will need to be in the private sector and is likely to be accompanied by sectoral reallocation and a shrinking of elements of the public sector, leading
to a restructuring of the Northern economy. This will be a challenging political task and is unlikely to be easy to achieve without pain.

The report proceeds to itemise other opportunities: favourable demographics; educational attainments; an attractive business environment; flexible labour markets; telecommunications infrastructure; and green image. Most of these have been in place for many years, so one is forced to conclude that the absence of peace has prevented them from being fully effective. In addition, some of these opportunities have downsides. Favourable demographics will make it harder to meet job creation targets, even if labour supply problems are eased. Educational attainment success in Northern Ireland appears to be limited to a high level of participation in higher education, but is accompanied by failures at lower levels and in skill training. The attractive features of the business environment in terms of quality of life co-exist with an ever increasing degree of community locational polarisation. Flexibility of the labour market tends to mean low wages, high long-term unemployment and low skills.

Northern challenges tend to outnumber opportunities. The first, and perhaps the most serious, is the high rate of long-term unemployment (about 45 per cent of the total in the North, compared to 27 per cent in the UK as a whole). The report is tactful, but less than frank, in not pointing out that the bulk of the long-term unemployed are Catholic and that this has been an enduring problem for decades, and is, therefore, a key challenge for the future (SACHR, 1997).

Many of the remaining challenges are simply measures of economic failure. Northern manufacturing is concentrated in low wage, low productivity sectors that do not have a bright future in the region; the high level of industrial grants has not produced a self-sustaining industrial base; technical education and training mirror British levels, which are generally
poor by EU standards; R&D expenditure is low, as is the rate of uptake of new technologies; and the manner of electricity privatisation has left the region with high energy costs.

There is one area of failure that is neglected and which should have been the central focus of the strategic review: the role played by the development agencies, and the IDB in particular, over the past two decades. Reading the report one gets little feel for the way in which the IDB dominates economic development policy in Northern Ireland, nor the crucial fact that it has been the focus of detailed analysis. In all cases, these studies have found the IDB to have a poor record in meeting jobs and investment targets, whether it be in terms of inward investment or indigenous industrial development, and IDB assistance to involve a substantial degree of deadweight. The enduring poor performance of the IDB, even allowing for the difficult period through which it has had to operate, has been the key failure in economic development policy in Northern Ireland.

It would have been extremely useful to have presented analysis and evaluation of the size and type of public funding directed towards the IDB and the other DED development agencies and the results achieved. The Culliton report in the Republic of Ireland (a similar strategic review body) presented an analysis of the Industrial Development Authority, highlighting the unsuccessful nature of grant assistance to industry over many years (CULLITON, 1992, pp. 59-66), which led to a change of policy involving much reduced grant assistance.

Turning to the future, Strategy 2010 sets out a vision statement (see above) and a series of five key principles or broad targets that it seeks to achieve. These are: equality and social cohesion; enterprise; knowledge based activity; outward looking orientation; and self help.

Equality and social cohesion are desirable aims in their own right and have an importance and urgency that are independent of economic matters. In addition, modern high technology
economies simply cannot function at high levels of efficiency if workplace and wider social relations are not characterised by equality, respect and cohesion. What makes the situation in Northern Ireland unique is that some of the socio-economic differentials that really matter are those that exist between sections of two different communities rather than simply between two socio-economic groups. For example, policy areas related to the achievement of equity and social cohesion include industrial location and social partnership. With respect to location policy, the report stresses the trade-off likely to exist between the benefits of clustering and issues related to access. The history of location policy in the North in the 1950s and 1960s shows that serious mistakes were made when development was concentrated in the greater Belfast region at the expense of the western and southern periphery (BRADLEY, 1996, pp. 95-109). Moreover, the drift of UK social policy during the period 1979-97 was one in which social partnership was not encouraged, leaving Northern Ireland with a legacy of institutional arrangements that are far less advanced than, say, those operating in the Republic of Ireland or in Northern Europe, even before one contemplates the additional and unique complicating problems of inter-community relations.

The report’s analysis of the importance of moving towards knowledge-intensive activity is timely. However, great understanding and sensitivity is needed in order to strike an appropriate balance between the vocational skill needs of the existing economic base, the likely (and often unpredictable) changes in skill requirements in the future, and the human and individual side of education. Since little in the way of research in this area is alluded to, the diagnosis of the report lacks authority, conviction and depth.

The desirable qualities of an enterprise culture are easy to state: vigorous, entrepreneurial, self-reliant, innovative, risk-taking, competitive. However, there is some reluctance to declare outright war on the grant culture that permeates Northern Ireland. Rather, a
rebalancing of industrial incentives is mooted, with greater targeting of companies with desirable characteristics, and greater use of private equity capital.

The call for greater outward orientation of people and companies is a sad reflection of just how inward-looking and parochial Northern Ireland has become. Northern Ireland is doubly unfortunate in that it is a region of the UK which is itself perhaps the most euro-phobic member of the EU, as well as being the UK region that is geographically closest to the Republic of Ireland, whose policy flexibility and experience of building outward-oriented prosperity makes it difficult for Northern Ireland to build a competitive advantage.

Finally, with regard to the future, the report states that it is self help or action within Northern Ireland that will determine economic success. While some sensible suggestions are presented with regard, for example, to the structure of the development agencies, the discussion would have been better framed in the context of how a region such as Northern Ireland can best use its limited policy autonomy. This is the key lesson to be taken from the experience of the Republic of Ireland and other successful regions in Europe (DUNFORD and HUDSON, 1996).

*Policy prescription for faster growth and development*

Having carried out its analysis, diagnosed success and failure, and isolated five target areas where progress is needed, *Strategy 2010* then makes 62 separate policy recommendations which we have informally classified into the following five broad groups:
<table>
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<tr>
<th>Subject classification</th>
<th>Number</th>
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<tr>
<td>Relating to institutional arrangements</td>
<td>27</td>
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<tr>
<td>Exhortatory</td>
<td>15</td>
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<tr>
<td>Related to policy instruments</td>
<td>9</td>
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<tr>
<td>Relating to education and training matters</td>
<td>8</td>
</tr>
<tr>
<td>Environmental planning, etc.</td>
<td>3</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>62</strong></td>
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An example of a recommendation relating to institutional arrangements is:

A high powered, high quality research body should be established (p. 146).

An example of a recommendation of an exhortatory nature is:

Businesses should take every opportunity to minimise their environmental impact through measures which will also enhance their competitiveness (p. 148).

An example of a recommendation relating to variation in existing, or the creation of new policy instruments is:

Northern Ireland should have a special rate of Corporation Tax for new inward investments over a period of 5 years (p. 168).

Of the 62 policy recommendations, the core proposals related to policy instruments focus on the perceived need to rebalance the incentives package and reform priorities for financial support. Unfortunately, with regard to the provision of incentives for inward investment, the
report's recommendations are either highly conservative or ill-thought through. With regard to direct financial assistance, the report proposes that "the existing grant regime for inward investment should be maintained unless and until new measures become available" ([STRATEGY 2010](#), pp. 168-169). Moreover, the possibility of targeting grants at specific sectors or that differential rates of assistance be decided on a sectoral basis are ruled out. Rather, grant prioritisation is recommended based on a series of specific company characteristics, such as commitment to R&D or export orientation. This would seem to be a continuation of what is understood to be the existing situation and, moreover, raises serious questions as to how the necessary rebalancing of industry from low to high value added activities would take place. With regard to the proposal for corporation tax, this would violate EU and World Trade Organisation competition law, and to satisfy the Treasury (a far from straightforward task) it is highly likely that it would have to be offset by contentious cuts in public expenditure. In a separate recommendation, the report proposes that a Development Fund be established to finance economic regeneration projects, with a suggestion that resources be found from the health and education programmes!

Concluding remarks

After stripping away the rhetoric of partnership and consultation, *Strategy 2010* essentially comes down to proposals for reformed or new institutions without in any way providing analysis of whether or how the old institutions were inadequate, together with a series of exhortations (usually to the private business sector or the general public) that are not associated with any policy instruments or mechanisms. The analysis upon which the report is based is at best partial, and at worst seriously flawed. Consequently, the diagnosis is unreliable and is unlikely to form a sound basis for arriving at policy recommendations. The policy recommendations that are actually made lack focus and involve no radical rethink about the policy context that might be appropriate, in the context of devolving governance
within the UK and the development of the economy of the island of Ireland. The growth targets listed at the end of the report are modest, probably achievable without much effort if the external economic situation is reasonably benign, but are unconnected with the analysis, diagnosis and policy recommendations contained in the report.

Northern Ireland has serious structural and economic developmental challenges, and a concise and frank statement of these problems would have helped clear the air and lay the groundwork for policy prescriptions. A proper understanding of the functioning of the Northern economy is badly needed and could be better informed by high quality applied economic research, placed in the context of work on and links with other European regions. Policy analysts in Northern Ireland should realise that the region’s problems are not unique. Then, and only then, might one expect to see an improvement in the quality of public policy reports like *Strategy 2010*. 
References


DED (1990) Competing in the 1990s - The Key to Growth, Department of Economic Development. Belfast: HMSO.


Footnotes

1 Another socio-economic report DOE(NI), 1998, mandated by the Belfast Agreement (in paragraph 2(i)) and dealing with regional development strategy, had already been published – together with a wide range of supporting documentation - in December 1998.


3 Regional preferential assistance to industry in 1996/97 made up 5.0 per cent of manufacturing GDP in Northern Ireland, compared to 0.1 in England, 1.1 in Scotland and 1.8 in Wales (STRATEGY 2010, p. 113). Given that labour and other costs in the North are relatively low (particularly in the low skilled area), and that Northern firms are price takers in local and external markets, this amounts to a large profit subsidy.