NORTH-SOUTH RELATIONS AFTER THE BOOM: THE IMPACT OF THE CREDIT CRUNCH ON MUTUAL RELATIONS AND UNDERSTANDINGS

—Opening Address
Martin Mansergh, TD

—Keynote Speech
Jeffrey Donaldson, MP, MLA

—Response
John Bradley

IBIS working paper no. 97
NORTH-SOUTH RELATIONS AFTER THE BOOM: THE IMPACT OF THE CREDIT CRUNCH ON MUTUAL RELATIONS AND UNDERSTANDINGS

—Opening Address
Martin Mansergh, TD

—Keynote Speech
Jeffrey Donaldson, MP, MLA

—Response
John Bradley

Working Papers in British-Irish Studies
No. 97, 2009

Institute for British-Irish Studies
University College Dublin
**BIOGRAPHICAL INFORMATION**

*Dr Martin Mansergh, TD* is a Minister of State at the Department of Finance (with special responsibility for the Office of Public Works) and at the Department of Arts, Sports and Tourism (with responsibility for the Arts). He was elected to Seanad Éireann in 2002 and to Dáil Éireann in May 2008 for Tipperary South. Dr Mansergh has been Political and Northern Advisor to three Taoisigh and leaders of Fianna Fáil from 1981-2002. He is author of *The Legacy of History for Making Peace in Ireland*.

*Jeffrey Donaldson* was appointed as Junior Minister in the Office of the First Minister and deputy First Minister on 26 February 2008. As a Minister he has joint responsibility for Children and Young People’s issues, policies on Older Persons, co-ordinating Executive business in the Assembly and assisting the First Minister with the discharge of his Ministerial functions. In 1985, he was elected to the Northern Ireland Assembly aged 22, becoming the youngest person ever to win a seat at Stormont with a majority of some 15,000. In January 2004 he joined the Democratic Unionist Party and became a key member of the Party’s negotiating team for the review of the Belfast Agreement which culminated in a new Agreement at St Andrews in autumn of 2006. Following the restoration of Devolved Government in May 2007, Jeffrey was appointed as the lead DUP member of the Northern Ireland Policing Board. He also chaired the Assembly and Executive Review Committee whose remit included the preparations for the devolution of Policing and Justice powers to the Assembly.

*Dr John Bradley* was formerly a Research Professor at the ESRI and is now an international consultant in the areas of economic development, Structural Fund design and evaluation. During his early career in the Irish Central Bank and the Economic and Social Research Institute he had substantial experience in research and evaluation in the areas of domestic (Irish) and EU policy analysis and specialised in the development of formal economic models and their application to a wide range of policy areas. He has advised the Irish government on medium-term economic and industrial strategy, and works as a consultant for the European Commission on a regular basis. He has published widely in these areas.

*Publication information*

Minister Donaldson, Madam Chairperson, Distinguished Guests, Ladies and Gentlemen. I am delighted to be back here at the Institute for British-Irish Studies, and to have been invited to address you this evening.

I wish to take this opportunity to commend the Institute for their ongoing and dedicated work, which contributes to the strengthening of North-South and indeed British-Irish relations. I am particularly glad to share a platform again with Minister Jeffrey Donaldson, whom I would have encountered in some of the negotiations on North-South aspects of what was to be the Good Friday Agreement, whom I came to know better when we were together at a seminar in Salzburg in the winter of 1998, and who was also a fellow speaker at a more recent conference organised by the Schomberg Society in Kilkeel. I would also like to pay tribute to John Bradley and Michael Smyth for their stimulating work over many years on North-South economic cooperation, from which we have all greatly benefited.

This evening’s event is a joint venture with the Irish Association, an organisation which has been around since 1938, working to develop communication and understanding between people on this island, North and South. My father corresponded at that time with its founder General Hugh Montgomery. I have had the honour to attend and address it on a number of occasions since the mid 1980s, both here and in Northern Ireland. I want to commend both organisations for organising this event.

I would like to offer a few thoughts on the topic chosen for this evening’s discussion: North-South relations after the boom; the impact of the credit crunch on mutual relations and understanding.

Let me, in that context, dwell a little on the achievements of North-South cooperation and collaboration, both the slow-burning foundation work and the higher profile achievements. It may seem like the “boom” has ended with a “bang”. It may seem as if we had a period of unprecedented economic growth, and now all we have is the débris of sharp shock. We have come a long way, and achieved a lot. As the Economist acknowledged a couple of weeks ago, despite the bursting of the housing bubble, there have been solid gains. Building prosperity, like building peace, is a process, not an event. We all have to take stock of the current difficulties, and find new ways to continue, albeit with a different road map.

We are a small island, with an open economy, operating in a globalised world, and none of us can escape the international economic downturn. The global economy is
in the midst of its deepest slowdown in decades, with the OECD estimating a drop in growth of over 4% in 2009. Global trade has fallen dramatically, and manufacturing output in many economies is contracting. As far as this jurisdiction is concerned, we cannot escape the loss in consumer confidence, the contraction in world trade—or indeed the problems within our domestic banking system and the yawning gaps in our public finances. We acknowledge the enormous scale of the difficulties encountered by our businesses, as they seek to remain competitive. Taken together, the scale and complexity of the challenges we face is unprecedented, certainly in living memory.

However, the Government is facing these challenges squarely, and will take further important budgetary decisions next week. The aim must be to stabilise the situation, as well as to position the economy to benefit when the international recovery comes. The Government will achieve this by building on our strengths in innovation and R&D, through continued investment in critical infrastructure, and by supporting employment-intensive activity.

We have to adjust our cost base downwards, particularly given the logic of the constraints of Eurozone membership, and improve our competitiveness.

As far as possible, we will continue to invest in capital projects in areas like roads, public transport, schools and housing. In that way we will maintain a stimulus to the economy, support future development, and enhance our productive capacity. On a macroeconomic level we are taking action to put the public finances on a more sustainable path, to get credit flowing, and to improve competitiveness.

Although the scale of these challenges is unprecedented, we must remember that, while they may be different from, they are no greater than other challenges we have faced in the past, and overcome. Those were challenges that could not be measured simply in monetary terms. To quote the *Economist* again, Ireland has form, when it comes to retrenchment. We are confident that we can deal with our current difficulties, not least because we are starting from a much stronger position than in the past. For example, while our gross national product in 2009 is projected to fall to below €150 billion, in 1995 the corresponding figure was around €50 billion. We are also now working against the background of an island at peace.

II

In the context of the peace we have achieved on this island, many of those who came to know each other as peace negotiators—often against a backdrop of violence and recrimination—now meet as elected representatives to discuss where to build new roads, how to protect our children, and what we can do to improve our broadband and energy networks. Where once politicians North and South communicated their differences, by megaphone, today they will pick up the phone, argue the options, and agree plans to the mutual benefit of all those we represent. Ministers from the Irish Government meet on a regular basis their counterparts from
the Northern Ireland Executive in the North/South Ministerial Council to discuss matters of mutual interest and concern. That is how far we have come.

Tragically, a tiny minority in our midst want to drag us back to a bitter past. They cannot and they will not succeed. We stand in solidarity with Peter Robinson and Martin McGuinness, with Jeffrey and his Ministerial colleague Gerry Kelly, and with the leaders of every democratic party on these islands in opposition to those who seek to destroy the peace settlement we have negotiated, and which has been endorsed by the people of this island, North and South.

I myself wrote a strong article in the *Irish Examiner* last week, in which I pulled apart the threadbare justifications sometimes put forward for such activity, which is based on contempt for Irish democracy, and a completely false expectation in my opinion that future generations will have any interest in perpetuating a futile and counterproductive method of addressing fundamental problems. Murdering innocent and unarmed soldiers and policemen, whose role and presence is written into the different Agreements, will not convert people to the cause.

III

In the same way as our support for peace is unwavering, we must now also remain steadfast in our commitment to meeting the economic challenges that face us. Our best chance of emerging from these difficult times is to cooperate. We are standing by our financial commitments to significant collaborative projects, even in these straitened times, and we will continue to work with the Northern Ireland Executive to intensify our co-operation for our mutual benefit. That commitment remains firm, because we know that cross-border infrastructure must be provided to meet current and future needs.

We are determined that, where possible, a “joined-up” policy approach will have us best placed to tap this island’s great potential in a globalised world when the upswing occurs; as it inevitably will. As Thomas Addis Emmet told a secret committee of the Irish Parliament in 1798, “America is the best market in the world, and Ireland the best situated country in Europe to trade with that market.”

We need to explore ways in which we can save money by working together. The cooperation ongoing in the health sector is a good example of what can be achieved by cross-border and spatially aware planning—patients in certain border areas can now access GP and cancer services in the other jurisdiction, for example. We must therefore be creative.

We must be conscious of mutually beneficial ways in which we can achieve efficiencies by combining our talents and our time and creating new synergies. In all of this, we are inspired by the success of the Single Electricity Market for the island. We are working on the untapped potential that exists to further our cooperation on renewable energy as we strive to meet ambitious targets in the coming years. We are also working together to nurture and develop an Innovation Island; an island at the cutting-edge of research and development. In our increasingly inter-connected
world, we must provide the brightest minds on the island with the incentives to collaborate as we strive to compete for research and development funding. Our deepening scientific collaboration has been supported by the US/Ireland R&D Partnership Programme and the availability of Research grants from Science Foundation Ireland on an all-island basis.

We are also working with our closest neighbours in Northern Ireland to maximise our combined drawdown under the EU’s Seventh Framework Programme, or FP7—a €51 billion (euro) funding programme designed to promote research and innovation cooperation between Member States. We are hoping that as much as possible of our targeted €600 million in funding can be drawn down on an all-island basis.

Agencies like Enterprise Ireland and Invest Northern Ireland are also working on a North/South basis, collaborating to deliver an island economy, that attracts investment, encourages our own entrepreneurs, and provides jobs; collaborating to innovate; developing enterprise, exports and innovation through their programmes and networks. It is true that the existence of two jurisdictions on this island poses some challenges to tackling the economic crisis. We have two financial systems, two fiscal régimes, and two currencies operating side by side. At the moment, the fluctuations of exchanges rates are causing a significant loss of revenue to the Irish exchequer, as shoppers flow north. However, as the Chairman of InterTrade Ireland, David Dobbin recently said, we should not be distracted by this temporary phenomenon. Indeed, we must not forget either that the cross-border shopping flows went the other direction in the past, even the recent past. These things are fluid and changing. There is a blend of complementarity and competition, both of them healthy. Tourism Ireland has also been a great success in attracting visitors to all parts of the island.

IV

In sum, to answer the question implicit in the title of our discussion, we do not believe that the credit crunch will adversely affect North/South relations or the understandings we have developed.

Indeed, it is our firm belief that—on the contrary—the credit crunch, like other challenges, provides us with the impetus further to cement our mutual relations, to collaborate to compete internationally, and to co-operate to achieve economies of scale here on the island in these difficult times. The development of the island economy remains an important dimension of the Government’s overall strategic policy framework. The all-island dimension will play an important role in the economic recovery for both parts of the island.

It will be tough politically, financially, and socially in the year and years ahead. There is no easy or quick fix to the economic difficulties here in the South. Further difficult decisions will have to be taken, which will be announced next Tuesday. But let us bear in mind the words of An Taoiseach at the CBI annual event in Belfast
last week, when he spoke encouragingly on the themes of achievement, hope and opportunity. We will not waste the unique opportunities of peace. We will continue to build a prosperous and peaceful future for everyone on this island. This will be the great legacy of achievement from this generation to the next.
Thank you for your kind introduction.

Good evening Ladies and Gentlemen.

I am delighted to join you here today in Newman House to discuss this evening’s theme of North-South relations after the boom and the impact the credit crunch will have on mutual relations and understandings.

For my address I would specifically like to examine how the current economic downturn in the Republic of Ireland is likely to impact on Northern Ireland.

I don’t need to tell you that these are challenging times. Just 18 months ago, who could believe that the economic situation could have been transformed so quickly. The international economic outlook still looks pessimistic as the United Nations (UN) has recently reported that the world’s economy faces its worst downturn since the Great Depression.

The UN has also predicted that “developed” economies in total will shrink by up to 1.5% in 2009. Though I imagine you would be happy with that negative growth here.

The Managing director of International Monetary Fund said in March that the economic downturn would be more severe than previously thought, with global growth to slow below zero this year—the worst performance in most of our lifetimes. Continued de-leveraging by world financial institutions, combined with a collapse in consumer and business confidence, is depressing domestic demand across the globe, while world trade is falling at an alarming rate and commodity prices have tumbled.

With economic conditions globally worsening and the economies in Northern Ireland and the Republic of Ireland in recession, these are indeed challenging times. Both of our economies look to be experiencing one or more of the following issues:

• a general slowdown with associated redundancies;

• business and consumer confidence waning;

• financial institutions under threat;
• a slowing housing market;
• rising unemployment.

As regards the gloomy predictions, Northern Ireland’s economy is forecast to contract in 2009 by 1.5 per cent according to the March forecast made by the First Trust Bank; while the Economic and Social Research Institute has recently forecast the Republic of Ireland to contract by 3.9 per cent in 2009. However, the predictions for the Republic appear to be getting even worse as an article in the recent Econo-mist magazine predicted the downturn to be more severe with a contraction at 6.5 per cent this year.

Clearly the Republic’s downturn is predicted to be a lot more severe than that in Northern Ireland. For example, unemployment south of the border now stands at 7.7% compared to 5.7% in Northern Ireland. The claimant count measure in the Republic though is a lot higher at 10.4%. Official statistics now indicate that the Republic’s economy shrank by 7.5% in the last three months of 2008 compared to the same period in 2007.

According to the latest figures, the numbers unemployed in the Republic, as measured by the ILO definition, have risen by around 70,000 persons over the last year.

The rise in Northern Ireland was 10,000. The increase in benefit claimants in Northern Ireland was around 18,000 seasonally adjusted over the last year to February 2009. Unemployment in Northern Ireland currently stands at 46,000 persons looking for work whereas in the Republic it has reached nearly 171,000.

Employment in Northern Ireland has fallen by around 18,000 over the last year whereas in the Republic, it has decreased by close to 87,000.

The construction industry has been particularly badly hit especially in the Republic of Ireland. For example in the Republic of Ireland, construction employment has fallen to around 233,000, a loss of close to 46,000 jobs over the last year—equal to a contraction of 16.5 per cent in employment. Construction output suffered a 24% fall in output, the biggest fall on record.

In Northern Ireland construction employee jobs fell to around 39,600, a loss over the year of around 5,000 jobs or a contraction of 11 percent. NI construction output fell by 5% in the year ending September 2008.

II

From a north/south perspective, the question to ask is whether the more severe downturn in the Republic has had a discernable impact on Northern Ireland. To do this we need to look at where the main economic linkages lie between the two countries on the island. These occur in trade, tourism and cross border shopping.
Donaldson / Keynote address

The manufacturing sector in Northern Ireland is small accounting for around 12% of the total number of jobs. Data for Northern Ireland manufacturing sector’s sales for 2007/08, published by the Department Enterprise, Trade and Investment indicates that around one quarter of manufactured goods produced by local business in Northern Ireland, were destined for the local Northern Ireland market; close to 40 percent were destined for sale in Great Britain; around 11 percent of manufacturing sales were sold in the Republic; around 9 percent of sales go to the rest of the EU; and the remaining 16 percent goes to the rest of the world.

So not only is the Northern Ireland manufacturing sector small but sales to the Republic only account for one tenth of the sector’s turnover.

Data on the sectoral split of manufacturing exports from North to South, available from Intertrade-Ireland, indicates also that close to half of Northern Ireland’s sales to the Republic are in lower value added products such as food, drink, tobacco, textiles, clothing, leather, pulp, paper and publishing, which tend to be more “recession proof”. While some sectors have seen some falls in exports north to south between 2007 and 2008 especially electrical and optical equipment, others have seen growth especially food, drink, tobacco, transport and basic metals. The data also suggests overall the cash value of exports from Northern Ireland to the Republic in 2008 remained around the same measured in millions of Euros compared to 2007. So clearly trade from North to South to date has not collapsed and more than likely helped by the recent depreciation of sterling.

The recession in the UK has also had an added impact upon economic linkages between North and South and this has been generated by the exchange rate. Since January 2008, the pound has depreciated by around 20 percent against the euro.

This has benefitted tourism in Northern Ireland. Between 2007 and 2008 estimated visitors and holiday visitors from the Republic going to Northern Ireland rose by 14% and 10% respectively. While the pound remains weak this may continue.

Another impact from the weak pound has been on cross border shopping. In the past, purchases tended to move in a North-South direction, with many people in Northern Ireland making the trip across the border to purchase their fuel. Now it is moving in the other direction.

In an article in the BBC news pages in November 2008 Professor Mike Smyth stated that the cutting of VAT from 17.5 per cent to 15 per cent in the UK will have a massive impact on the level of cross-border shopping. The reduction in VAT left the rate in Northern Ireland more than six per cent lower than in the Republic of Ireland. At that time he anticipated the savings to be made on Christmas shopping could justify a family travelling from as far away as Dublin up to Newry or in the West from as far away as Galway to Enniskillen.

This reduction in VAT when added to the decline in the value of the sterling certainly did what he anticipated; and has provided a boom for Northern Ireland retailers. The BBC reported on 22 December the scale of the influx was significant. For
example in the Asda store in Enniskillen, Co Fermanagh—60 per cent of its customers in December came from the Irish Republic making it the sixth busiest store in the global Wal-Mart chain. Also in Strabane normally one of the UK’s economic blackspots, sales were up 54 per cent in the previous week compared to the same week in 2007. Most people making the trip from the Republic of Ireland to do their weekly grocery shop in Northern Ireland reckoned they could save at least 30 per cent. I suspect there are more than a few people in border towns in Northern Ireland who for one are grateful for the border.

However, while this may be good news for retailers in Northern Ireland it is making life very difficult for southern retailers. Retail Excellence Ireland Chief Executive David Fitzsimmons claimed that “things haven’t gone downhill, things are catastrophic” with border towns like Dundalk particularly affected.

A recent report compiled by the Central Statistics Office for the Department of Finance in the Republic of Ireland revealed that shopping across the border will increase by some €150m to €700m in 2009. The report says the loss in VAT revenue in the Republic could be as high as €72m this year; excise duty could be upwards of €40m with the loss in corporation tax revenue as high as €31m. This is a total tax loss of €143m. This is on top of the €114m lost to the Exchequer last year. If the exchange rate remains low and if the spending patterns based in late 2008 persist throughout 2009 the resulting VAT and excise duty revenue loss could be significantly higher. This is obviously not welcome news for the Republic of Ireland.

III

Taking all of this together we could tentatively conclude that the impact of the downturn in the Republic has been mixed in Northern Ireland, and has probably been no worse than neutral on the economy as a whole at this time. For good or ill, we remain two separate economies, and much of the support for an all-island economy has, at least for now, disappeared.

The same cannot be said however for the impact on Northern Ireland of the downturn in the UK economy, the rest of the Euro area and in the US. Increased debt, falling house prices, a weak housing and property market, tighter credit conditions, weak consumer confidence and expenditure and falling demand in export markets is impacting on the NI economy with rising unemployment and employment beginning to fall. All sectors have been affected with falls, over the last year, in employment in construction, manufacturing and services of around 5,100; 3,100; and 6,100 job losses respectively. Services and construction output is contracting. But more positively manufacturing output has held up to date. However, this may change when fourth quarter output figures for 2008 are available.

Even so the recession in Northern Ireland is forecast to be less severe this year compared to Great Britain and the Republic. While this may be good news in the short term it does not necessarily imply that this is a good sound basis for the future prosperity of Northern Ireland.
The lesser impact now may also be a sign of underlying structural weakness for the economy in Northern Ireland as it reflects a greater dependence on the public sector and a smaller private sector concentrated on supplying local services, construction and a small manufacturing base.

For example, manufacturing, financial and business services employment in Northern Ireland accounts for one quarter of NI jobs compared to 30% in the UK. The public sector in NI accounted for 31% of employee jobs compared to 23% of jobs in the UK at December 2008. We also have lower productivity than the Republic and the UK, and higher economic inactivity compared to the rest of the UK. Our structural problems still need to be addressed.

Accelerated productivity growth is fundamental to increased competitiveness and to long term sustainable economic performance both for Northern Ireland and the Republic of Ireland.

Economic development policy is focused on productivity and particularly for Northern Ireland, on moving the economy away from competition, based on costs, to one where the emphasis is on innovation, creativity and improved workforce skills.

Our Programme for Government seeks to address the structural weaknesses in our economy with a particular focus on growing Northern Ireland’s private sector, including small and medium indigenous enterprises. Growing a dynamic, innovative economy is our top priority. We aim to develop a strong and vibrant economy, characterised by high productivity, a highly skilled and flexible workforce and employment growth. Prioritising the economy is even more important now against the backdrop of the global economic downturn. We need to diversify our private sector into higher value added sectors.

IV

If we can look for a moment beyond our current short term problems, the recession will not last forever and we will recover.

We must ensure that the recovery is sustainable and we continue to promote stable economic growth on the island with higher productivity, income and value added economic activity.

In making the transition to innovation oriented economies both Northern Ireland and the Republic of Ireland face the challenge of increased global competition. Every source of competitive advantage must be sought. Appropriate areas for consideration for co-operation arise where the border creates impediments to faster economic growth. The gains from collaborative action fall to both economies and will lead to mutual advantage.

While both countries on the island will pursue their own policies and agendas to promote an innovation oriented stage of development in their economies there are steps that we can take together.
The benefits in co-operation in infrastructure are well understood, but we can also consider others.

Both Northern Ireland and the Republic Ireland have exceptional learning and research institutions. With our combined talents for learning, research and creativity, we are well placed to offer the resources, skills, high tech infrastructure and human capital necessary to attract high value added Foreign Direct Investment. This will improve employment, international trade and will ensure that both Northern Ireland and the Republic of Ireland remain competitive on international markets.

Both economies have been working together in the area of education and skills, and research and development. The Department for Employment and Learning’s new programme—“Strengthening the all-Island Research Base”—will contribute to strategic investment in the “All-Island Research Infrastructure” through meaningful and appropriately targeted collaboration with leading research teams in the Republic of Ireland.

All of the projects approved for funding under this latest initiative involve strategically focused R&D collaboration with major, internationally-recognised research centres in the Republic of Ireland which offer complementary strengths to those already well established in Northern Ireland.

The creation of jointly supervised “split site” PhD studentships within each of the projects will further embed the ethos of cross-border research collaboration over the next decade and beyond.

The objectives of the “Strengthening the all-Island Research Base” Programme are:

• To provide assistance to the Northern Ireland universities to enable them to build additional and sustainable research capacity and capability that will contribute to the development of the “all-Ireland Research Infrastructure” through meaningful and appropriately targeted collaboration with leading research teams in the Republic of Ireland;

• To contribute to the economic and social development of Northern Ireland, and the island of Ireland as a whole, through the funding of projects which support the Northern Ireland Executive’s priorities as expressed through the Programme for Government, the Economic Vision and the Regional Innovation Strategy.

The extent of Irish Government involvement in the setting up of the Programme has involved officials from the Republic’s Department of Education and Science and Department of Enterprise, Trade and Employment as well as from Science Foundation Ireland and the Higher Education Authority were closely consulted on the design and setting up of the programme and their officials also sat on the Evaluation Panel to consider the proposals.
This invaluable practical input from the Irish Government is in addition to its generous financial support through “Funding for Innovation”.

Indeed, Michael Murray recently commented in the First Trust Economic Outlook and Business Review magazine, of the shift in research scale and the emergence of new interdisciplinary research communities to bring forward research proposals to tackle globally relevant themes—he stated that the island of Ireland has recently emerged as an arena for university collaboration.

I would like to place on record our thanks to the Irish Government which has contributed generously to this strategically important programme through the “Funding for Innovation” stream and whose officials have been extremely supportive in both its design and successful delivery.

It is clearly important that we continue to address and support investment in the key drivers of productivity such as skills, innovation and infrastructure.

In closing, these are indeed challenging times for both Northern Ireland and the Republic of Ireland, however, we can hopefully weather the storm and promote sustainable economic growth in the longer term as we eventually emerge from the current downturn. Thank you.
I am very pleased to have been invited to say a few words following Mr Donaldson’s address to the Irish Association. I start with a quotation from Mr Donaldson himself, made during his speech welcoming the President of the European Parliament, Dr Hans-Gert Pöttering, to Northern Ireland last November. Mr Donaldson said:

Europe was created out of the ashes of division and destruction of the second world war, yet it has become one of the great examples of what can be achieved and how people in conflict can be transformed.

Through the years, Europe has become stronger, working together for the benefit for all. Europe evolved to remain relevant and meet the challenges it faced through the decades. As we move forward towards building a shared and better future for all the people of Northern Ireland, we can learn the important and valuable lessons about overcoming deep division and building a firm foundation of shared values.

The lessons from Europe are indeed relevant to the situation in Ireland. But the more that I reflect on the various positions taken by the political parties in Northern Ireland, and by those in the Republic, the more I am convinced that the real lessons of European co-operation have been completely misunderstood.

Let me explain what I mean. When he met the then Taoiseach, Bertie Ahern, in September, 2004, Dr Paisley, the then First Minister, said:

We are working towards a settlement for all the people of Northern Ireland, and in doing so we wish to build a relationship with our neighbour that is practically based rather than politically motivated.

But the deep lesson of Europe is surely that co-operation has always been both practically based and politically motivated. One cannot separate the two. After the war, the political need to make European civil war a thing of the past was achieved through decisions of very practical consequence. In Europe, the political and the practical sit side by side, albeit not always comfortably. Europe is littered with the consequences of convulsions of past wars, where populations were forcibly relocated and the ownership of territory changed hands. My Polish friends tell me that the older generation still retain bitter memories, but they have become close friends with Germany so that their children never have to experience what they had to experience. In turn, the Poles have extended the hand of friendship to the Ukraine,
which now incorporates territory that they lost in 1945, because that is the only way that the horrors of the past would never be repeated.

I ask myself: “Why is the more local question of North-South relationships more contentious and strained”? What do I mean by this? It is best illustrated by the interview conducted by Andy Pollak with the Leader of the DUP, First Minister Peter Robinson, and published in the latest issue of the *Journal of Cross-Border Studies in Ireland*. When asked by Andy if he favoured the extension of North-South co-operation, Mr Robinson replied:

> My antenna go up if people start talking about (...) co-operation having to be at a structural and formal level. When people want to formalise it in that way, it speaks to me of an attempt to change the constitutional relationship between Northern Ireland and the Irish Republic—that it is part of a process to lead you towards a united Ireland.

When pressed on the possibility of adding some new Cross-Border bodies to the Belfast Agreement ones, Mr Robinson said:

> I don’t think I’ll ever find myself in the position where I’m enthusiastic about adding one. It would be much better if there were more relaxed and normal kind of co-operation rather than having to do everything very officially and formally.

It seems that North-South co-operation is not to be of the European kind. It will avoid political entanglements and effective, common structures. A basic lack of trust will prevent much deepening of real and practical co-operation.

But why is it that nations that had previously torn each other apart during world wars can now sit peaceably together in Brussels as they deepen European Union? Of the many reasons, one is surely that the inhabitants of (say) the Polish western regions can sleep soundly at night with no fear that their independence will be threatened by their German neighbour. In other words, the borders of the member states of the European Union are fixed and universally recognised. Good fences make good neighbours!

Here, I believe, lies that main difficulty of North-South relations. Imagine if the Polish region of Lower Silesia had a population that was 45% German and 55% Polish, and if the ownership of that region could be changed at any time by a simple majority in a plebiscite. Would you expect such a region to have an ever deepening, warm political relationship with Germany? Then why are we surprised that there is a fear of deepening North-South co-operation, when exactly such a situation prevails, even if it is tempered by the principle of consent?

If these political barriers to trust on our island had no practical consequences, then we could get on with our everyday lives, look to our own business, believing that the institutions of the Belfast Agreement would take care of North-South issues. But unfortunately, there are practical consequences of a failure of political trust, that the economic crisis may have made more serious. This was illustrated last year when the low rate of corporation tax here in the South was identified as a barrier to at-
tracting inward investment to the North. When Andy asked Mr Robinson about this, he neatly sidestepped the question and referred to the benefits of cross-border shopping! And in response to Alan Gillespie’s suggestion for an island-wide agency to promote inward investment, Mr Robinson rejected the matter out of hand.

II

So each economy on the island still largely goes its separate way, in spite of comforting rhetoric. Here in the South, the ESRI has identified three issues that must be addressed in order for our economy to return to growth: the serious loss of competitiveness; the structural imbalance in the government’s finances; and the restoration of order to the banking system. The next few months will show how the storm will be weathered. And we will look back at the decisions taken and compare them to those taken during two previous crises in 1958 and in the mid-1980s. Only the first of the three ESRI issues—loss of competitiveness—has any immediate implications for North-South relations. And access to cheaper consumer imports probably increases Southern welfare, even if it makes our retail sector fractious and our politicians nervous!

In the North, none of these three issues is at all relevant. Competitiveness is presently a minor issue since about two thirds of Northern sales are made into the sterling area, and sterling happens to be weak at the moment. It is London who worries about the nation’s finances, not Belfast. And the Northern banking system, unlike in Scotland, is not home grown.

So this is a good time to be a Northern politician, what with Southern consumers flooding across the border, and a heavy dominance on the public sector that has protected it against the vagaries of the world business cycle. One cannot blame them if they display a sense of schadenfreude. But soon even the Northern economy is likely to be engulfed by the global crisis, mainly in the form of severe fiscal cut-backs imposed at the UK national level and passed down to the UK regions.

Just now we are in the eye of the storm, and we need to focus on survival. But perhaps now is exactly the time to revisit our island economy, and to take up again, in a spirit of renewed cross-border co-operation, the issues that Sir George Quigley first put on our island agenda as far back as 1991. John Maynard Keynes said in 1942 that he used the calm of war to reflect on the turmoil of the coming peace! We too ought to reflect on our longer term situation, and to try not to be deflected by the urgent concerns of today.

The post-crisis world is likely to be very different from the pre-crisis world. The economies of the former Communist bloc may be hit hard, but they are leaner and hungrier than we are, and their infrastructure and human capital has made dramatic advances, aided by the same EU Structural Funds that helped our island since 1989. Here in the South, we would be wise not to rely on foreign investment in the future as much as we did in the past. In the North, politicians of all parties would be well advised to encourage a rebalancing of the economy towards greater private
sector contribution and less dependence on subvention. In doing this, the island economy of nearly six million is a consumer base that can be used to promote and sustain greater local entrepreneurship, as small indigenous businesses grow, prosper and export.

But this will not happen on our island in the absence of trust and co-operation of the political and practical European kind. The dreadful paradox is that the fear of a united Ireland on the part of the Northern Unionist population, the siren call of a United Ireland for the nationalist population, and the indifference to a united Ireland on the part of most of the population of the Republic will end up delaying or preventing the emergence of a dynamic island economy. That is the real tragedy of present North-South relations.

Thank you
WORKING PAPERS IN BRITISH-IRISH STUDIES

2006

54. Joan Henderson and Paul Teague, The Belfast Agreement and cross-border economic cooperation in the tourism industry

55. Liam O’Dowd and Cathal McCall, The significance of the cross-border dimension for promoting peace and reconciliation

56. John Coakley, Brian Ó Caoinealbháin and Robin Wilson, The operation of the North-South implementation bodies

57. Stephen Roper, Cross-border and local cooperation on the island of Ireland: an economic perspective

58. Jennifer Todd, A puzzle concerning borders and identities: towards a typology of attitudes to the Irish border

59. Andy Pollak, Educational cooperation on the island of Ireland: a thousand flowers and a hundred heartaches

60. Cormac Ó Gráda and Brendan M Walsh, Did (and does) the Irish border matter?

61. Liam O’Dowd, Cathal McCall and Ivo Damkat, Sustaining Cross-border cooperation: a cross-sectoral case study approach

62. Kevin Howard, Diasporas and ambiguous homelands: a perspective on the Irish border

63. Eoin Magennis, Patricia Clarke and Joseph Shiels, Funding support for cross-border and North-South cooperation on the island of Ireland, 1982-2005: an overview

64. Alessia Cividin, Irish cross-border cooperation: the case of the Northwest region

65. Elizabeth Meehan, Borders and employment opportunities and barriers

66. Kevin Howard, Nationalist myths: revisiting Heslinga’s “The Irish border as a cultural divide”

67. KJ Rankin, Theoretical concepts of partition and the partitioning of Ireland

68. Brian Ó Caoinealbháin, Citizenship and borders: Irish nationality law and Northern Ireland

69. Katy Hayward, Contention, competition and crime: newspapers’ portrayal of borders in the north-west of Ireland

70. Kevin Howard, Continuity and change in a partitioned civil society: Whyte revisited

71. Kevin Howard, Territorial politics and Irish cycling

72. John Bradley, An island or island economies? Ireland after the Belfast Agreement

73. John Bradley, Industrial development in Ireland North and South: case studies of the textile and information technologies sectors

74. James Anderson, Irish border communities: questioning the effects of state borders and ethno-national identities

75. Michael Kennedy, The realms of practical politics: North-South cooperation on the Erne hydroelectric scheme, 1942 to 1957

76. Hastings Donnan, Fuzzy frontiers: the rural interface in South Armagh
77. Brendan O'Leary, *Analysing partition: definition, classification and explanation*
78. Brendan O'Leary, *Debating partition: justifications and critiques*
79. KJ Rankin, *The provenance and dissolution of the Irish Boundary Commission*

**2007**
80. Sean Farren, *Sunningdale: An Agreement too soon?*
82. PJ McLoughlin, “*Dublin is just a Sunningdale away?*” *The SDLP, the Irish Government and the Sunningdale Agreement*

**2009**
83. Elizabeth Meehan, *From conflict to consensus: the legacy of the Good Friday Agreement. The British-Irish and European contexts*
84. Sir George Quigley; Tony Kennedy; Martin Mansergh, *The impact of devolution on everyday life: 1999-2009*
86. Gladys Ganiel and Claire Mitchell, *Everyday evangelicals: life in a religious subculture after the Belfast Agreement*
87. Neil Jarman and John Bell, *Routine divisions: segregation and daily life in Northern Ireland*
88. Elizabeth Meehan and Fiona Mackay, A "new politics" of participation?
89. Siobhan Byrne, *Women and the transition from conflict in Northern Ireland: lessons for peace-building in Israel/Palestine*
91. Frank Barry, *Agricultural interests and Irish trade policy over the last half-century: A tale told without recourse to heroes*
92. Graham Brownlow, *Fabricating Economic Development*
93. Bryan Fanning, *From developmental Ireland to migration nation: immigration and shifting rules of belonging in the Republic of Ireland*
94. Thomas P Murray, *The curious case of socio-economic rights*
95. Peter Murray, *Educational developmentalists divided? Patrick Cannon, Patrick Hillery and the economics of education in the early 1960s*
96. Tom Garvin, Dublin opinions: Dublin newspapers and the crisis of the fifties
97. Martin Mansergh, Jeffrey Donaldson; John Bradley, *North-South relations after the boom: the impact of the credit crunch on mutual relations and understandings*