

**THE IMPACT OF DEVOLUTION ON EVERYDAY  
LIFE, 1999-2009: THE CASE OF CROSS-  
BORDER COMMERCE**

**Aidan Gough and Eoin Magennis**

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## ABSTRACT

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### **THE IMPACT OF DEVOLUTION ON EVERYDAY LIFE, 1999-2009: THE CASE OF CROSS-BORDER COMMERCE**

This paper examines the impact of cross-border cooperation on everyday life in an era of devolution since 1999. The argument is made that the island of Ireland has moved from the process of fracture and friction that Conor Brady memorably described for the period after 1920 into a more cooperative relationship between North and South. The paper details the work of the North-South institutions since 1999 with a particular emphasis on the work of InterTradeIreland. At the everyday level it draws on statistical sources to reflect on developments within areas such as cross-border tourism, trade and student flows. In each it can be seen as a case of “some work done, more to do”.

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## BIOGRAPHICAL INFORMATION

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## INTRODUCTION

Conor Brady described much of the past century as a period when a cold, denying silence descended upon the island of Ireland resulting in a process of fracture and fission across all spheres of public life (Centre for Cross Studies Yearbook 6, 2005: p.7). The results of this back-to-back development are very graphically presented in the closure of eleven rail border crossings between 1923 and 1965 and the “border effect” on access to hospitals (Kennedy, 2000: Chapter 5; Clarke, Jamison and Butler, 2008). Redoubled effects since the 1990s in the area of cross-border trade and business cooperation have begun to address the “border effect” and lift the silence referred to above.

The political developments which have culminated in the restoration of devolved government in Northern Ireland have certainly helped to provide a positive backdrop that is contributing to the necessary stability required to enable Northern Ireland and Ireland make best use the island’s economic resources to mutual benefit and to respond more effectively to commonly faced global challenges.<sup>1</sup> The challenges facing both parts of the island have intensified over the past twelve months given that the sub-prime and banking crises have spread to the wider economy.

However, the medium-term challenges are largely unchanged. Policy in both Ireland and Northern Ireland is driven by the desire to shift to what is know as an innovation-oriented or “smart” economy. Both economies on the island of Ireland also face increasing challenges from the global economic environment in which rising costs, uncertainty in international financial and credit markets, falling house prices and environmental concerns are contributing to increasing volatility. Strong performance of emerging economies, especially China and India, will simply intensify the competition for both new and existing markets. The challenges can be summed up as including the need to:

- Respond to globalisation;
- Continue to grow employment;
- Increase productivity;

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<sup>1</sup> The British and Irish governments produced a joint response to the “Lisbon Agenda” and identified common challenges; see British-Irish InterGovernmental Conference, *Comprehensive study on the all-island economy* (2007), p.15.

- Innovate and improve R&D capability;
- Enable people to acquire and maintain skills;
- Promote a culture of enterprise;
- Provide a positive environment for business;
- Remove barriers to mobility;
- Build world-class infrastructure;
- Achieve equality; and
- Promote the highest standards of environmental protection.

Not only are the challenges similar but so too the policy responses. These include improving educational attainments and skills, managing the shift to a knowledge-intensive services sector, increasing investment in research and development and making the island of Ireland more attractive (in terms of infrastructure, environmental protection and general lifestyles choices) to inward investors, researchers and mobile workers.

The common challenges and general policy responses offer both parts of the island the opportunity for cooperation in order to maximise the resources available to the two governments. This seems particularly important to the smaller of the two economies—Northern Ireland—given the extent to which policy levers are available to the devolved administration.

## **COMMERCE AND DEVOLUTION**

The title of the paper is concerned with the impact of devolution on commerce. However, it might be useful to reverse the title somewhat and look at the impact commerce has had on devolution. Without wanting to embarrass Sir George Quigley, who spoke earlier, a quote of his from a speech in March 2007 sums this point up well: “Unless you achieve economic transformation, you can’t have a stable society”.

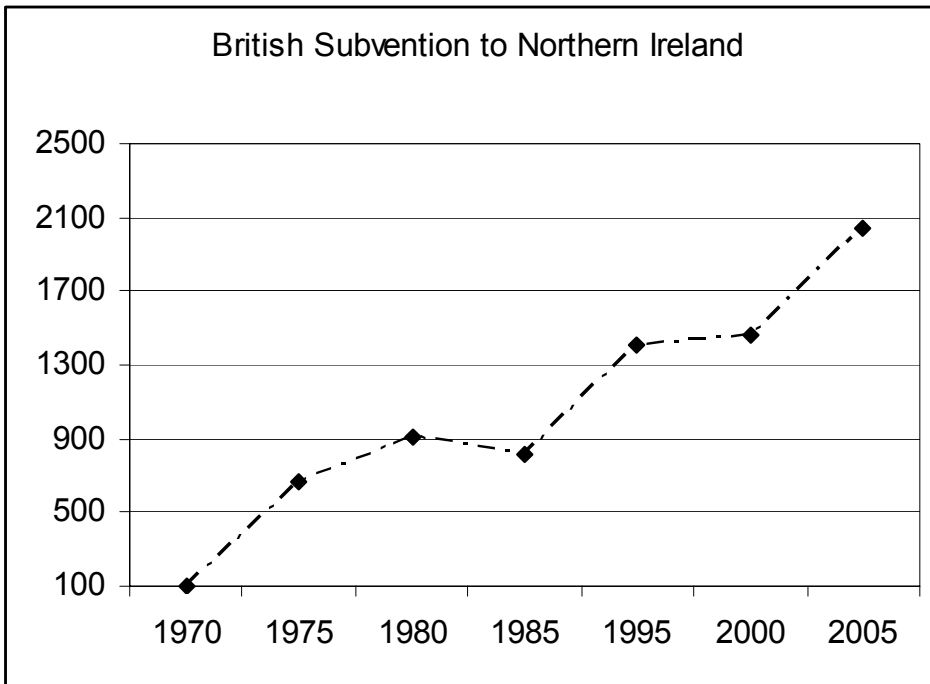
A quick look at some recent statistics covering Northern Ireland gives a sense of how far this transformation has happened. They include:

- Fastest growing regional economy (in terms of GVA) in the UK since 2002;
- GVA per head doubled between 1990 and 2005;
- Numbers in employment have grown by 35% between 1990 and 2006 (compared to 9% growth for the UK);
- Low unemployment rates (4.2% for late 2007);

- Manufacturing exports up 69% over the past decade to over £5.1bn;
- 100% broadband coverage; and
- Tourist visitors to Northern Ireland have increased by 15% since 1994.

However, the statistics do not tell the whole story. A falling unemployment rate has been accompanied by a rising rate of economic inactivity—currently the highest of any UK region. And the good academic results captured in Figure 2 have to be seen alongside the stubbornly high figure of 16 year olds who leave school without any qualifications at all. Another element of the stability of Northern Ireland—the size of the public sector<sup>2</sup>—has been a product of civil unrest and may act, in the short term, as a cushion against recession. However, in the longer term it is unsustainable as Figure 3—on the size of the subvention to Northern Ireland from the UK Treasury—makes clear.

Figure 1. British subventions to Northern Ireland (1970=100)



What has happened since 1999 is an acceleration of some trends (subventions from both Britain and the EU<sup>3</sup>, declining unemployment) and a much slower change in the growth of an enterprise culture or the transformation needed in the skills base.

<sup>2</sup> Figures from 2006 show Northern Ireland employing over 34% in the public sector compared to 20.2% for the UK as a whole and 21% for Ireland.

<sup>3</sup> According to figures from the EU just under £4bn in Structural Funds and other programme spend (Peace, INTERREG, etc.) will have flowed into Northern Ireland between 1989 and 2013.



## MANAGING COMPLEXITY

The story of cross-border economic cooperation is tied to another tale, the creation of North-South implementation bodies in 1999. This tale is one that has been outlined at a previous IBIS event in May 2005, when the then Joint Secretaries of the North/South Ministerial Council, Tim O'Connor (Mapping Frontiers Ancillary Paper 5, 2005: p.200) and Peter Smyth (Mapping Frontiers Ancillary Paper 6, 2005) gave a very entertaining account of the establishment of the bodies and their operation between 2000 and 2005.

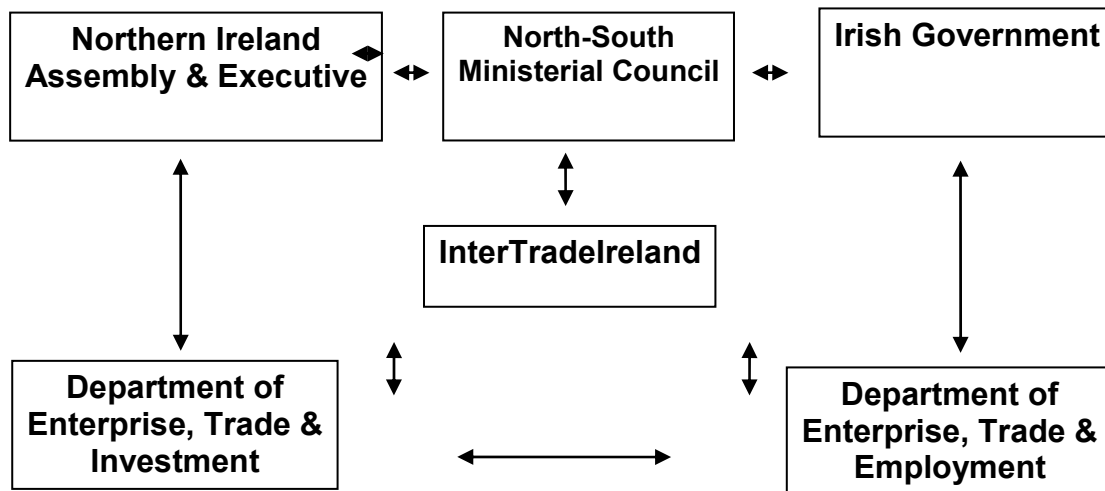
The Joint Secretaries spelt out how lengthy negotiations were needed in 1997-8 to agree twelve areas for cross-border cooperation. Six of the twelve areas were to be dealt with under existing arrangements (such as tourism or agriculture) and the other six by new implementation bodies (later agreed as trade and business development, language, inland waterways, loughs and lights, EU programmes and food safety promotion). The six bodies were later joined by a seventh for overseas tourism promotion, Tourism Ireland.

It is important to remember that some of the areas for cooperation (particularly tourism, agriculture and waterway) had been discussed back in the 1960s and 1970s. In addition, the development of other areas, particularly trade and business, owes much to the work of the IBEC-CBI Joint Business Council since 1991. At that time two key figures, the aforementioned Sir George and Liam Connellan, began to speak publicly of an "island economy". The first said that "An island economy is something that everyone could share without threat to anyone", while the second pointed out that "a Dublin-Belfast economic corridor could be a key driver of a new island economy". Since its creation InterTradelreland has sought to add some substance to the "island economy" idea through its programmes and policy work.

The new North-South implementation bodies were fastened further by legislation—the British-Irish Agreement Act—which was passed on the same day by Dáil Éireann and Westminster (to operate in NI). The legislation spelt out the remit of the various bodies, their staff numbers and types of boards. InterTradelreland's remit was summarized as "A Body to exchange information and co-ordinate work on trade, business development and related matters, in areas where the two administrations specifically agree it would be in their mutual interest".

Back in May 2005 Peter Smyth summed up the responsibility of those with executive functions devolved to them to work in the North-South area as one of "managing complexity". Figure 4 shows some of what he meant. InterTradelreland works to the NSMC and through it to the two governments and representative assemblies. We also have two sponsor departments, and our funding comes through their votes, two thirds from Dublin and a third from Belfast. Other complexity comes in the form of audits for both audit systems, North-South pension schemes and other governance arrangement (eg. on meeting Freedom of Information rules).

Figure 2: North-South institutional arrangements



A further source of complexity comes from the relationships with various economic development agencies, North and South. On the whole these relationships are positive ones but there remains the necessity to avoid duplication of effort and ensure the best use of scarcer resources. One sign of InterTradelreland’s success is that its area of work has now proved attractive to the likes of Invest NI or Enterprise Ireland. The virtually non-existent bilateralism of the past has been replaced by joint innovation voucher schemes, joint trade missions, etc. Indeed the threat of duplication is perhaps now more likely to come from the centre than from the devolved cross-border bodies.

### A QUIET SUCCESS STORY?

Change in the cross-border business and economic relationship has been reflected in the way that InterTradelreland does its business now. The body has moved from its political origins in the eyes of business to one that has an economic credibility. There has also been a shift in policy making from taking a regional cross-border view to an all-island one. And finally, a shift from a focus solely on trade to the wider issues of competitiveness.

This change can be seen in the current corporate vision for InterTradelreland: “A globally competitive all-island economy characterised by the optimal utilisation of the island’s economic resources for mutual benefit”. The body is working to deliver this vision through generating business value—by enhancing company competitiveness and capability through collaborative all-island initiatives—and improving the competitive environment on the island through collaborative policy research, reports and networks.

Cross-border trade remains central to the work of InterTradelreland through its sales and marketing supports, research into the barriers and opportunities and “first stop shop” for cross-border business. However, much of our work goes into the key policy areas for development agencies: science, technology and innovation, and business capability improvement.

One key method of encouraging collaboration on an all-island basis has been through supporting business networks. InterTradelreland has been to the fore in the development of such networks since 2004. The organisation commissioned research into business networks<sup>4</sup> and then organised a conference in January 2007 to develop a cross-border approach to knowledge exchange. Networks have since become a tool to encourage business collaboration for all of the main economic development agencies on the island of Ireland.

In terms of its performance, InterTradelreland can also be judged a success. The following indicators cover the 2004-2007 period and represent a 6:1 return on investment:

- 1,300 companies participated on various InterTradelreland programmes
- Participation has created £400m of added value for companies involved on the programmes
- 204 companies have become first-time innovators
- 209 companies have become first-time exporters
- 230 companies developed new products/processes
- 15 collaborative R&D partnerships
- 277 jobs created through ACUMEN programme

### **CROSS-BORDER CHANGES AND EVERYDAY LIFE: MORE TO DO**

But away from institutions, what about everyday life? The next few charts reveal at least two things. First, that linkages between North and South have grown in the period since 1999. And, secondly, that there is much more to do.

Take cross-border trade for instance, which is shown in Figure 3. The level of total cross-border trade was 20% higher in 2007 than in 1999. Also, the South is now the North's most important export market (and second most important external market behind GB). Yet there is more to do here. Recent research from InterTradelreland, using a gravity model approach, reveals that once important economic and geographic factors are taken into account, the level of trade between the two parts of the island is below the expected level.<sup>5</sup> As Figure 4 shows, this finding applies to both total manufacturing trade and the trade for a number of sectors. For total manufacturing trade over the period 1998 to 2007 the gap between expected and actual North-to-South trade was 82% and 77% for South-to-North trade. Per-

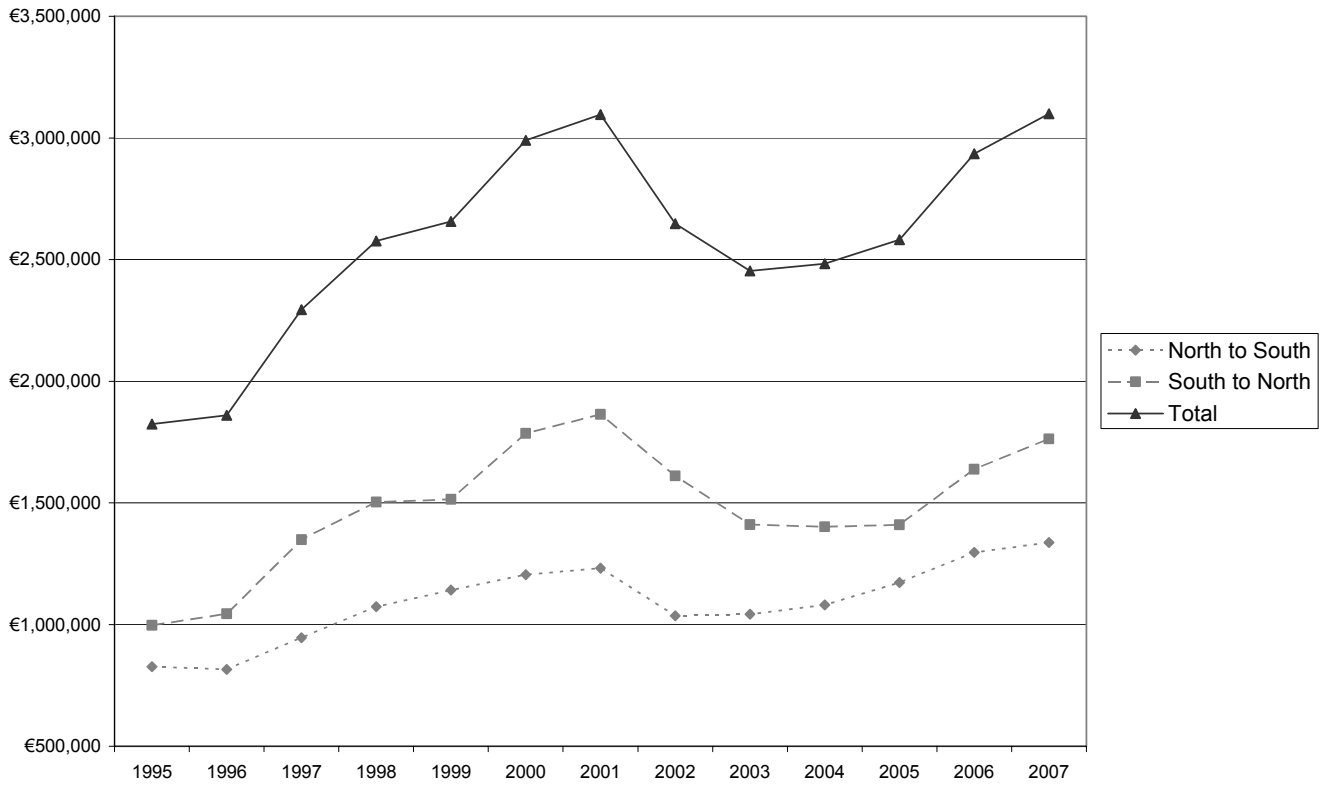
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<sup>4</sup> InterTradelreland (2005) *Business Networks on the island of Ireland*.

<sup>5</sup> InterTradelreland (2009) *Estimating the level of cross-border trade on the island of Ireland: A gravity model approach*.

haps more surprisingly, the gap between the actual and the expected level of trade has been increasing since the 1990s, a factor that may be explained by the above average growth rates in the two economies.

Figure 3. Cross-border trade, 1995-2007



We also know (from the InterTradeIreland Quarterly Business Monitor) that 60-65% of firms are still not engaged in any cross-border business or trade linkages. So, still more work to be done there.

The cross-border tourism figures can be seen in Figure 5. In 2007 visitors to the island of Ireland topped 9 million for the first time (7.8m going South and 1.3m North). In the same year over 900,000 residents of the island made a tourist trip across the border. This level had not been reached since 2000 and both local tourist boards feel there is potential to develop areas like the Mourne, the North West, etc. In 2008 there was a healthy increase on the 2007 levels (+4.7%), largely due to strong numbers going to Northern Ireland.

Figure 4. Percentage deviation from expected levels of cross-border trade

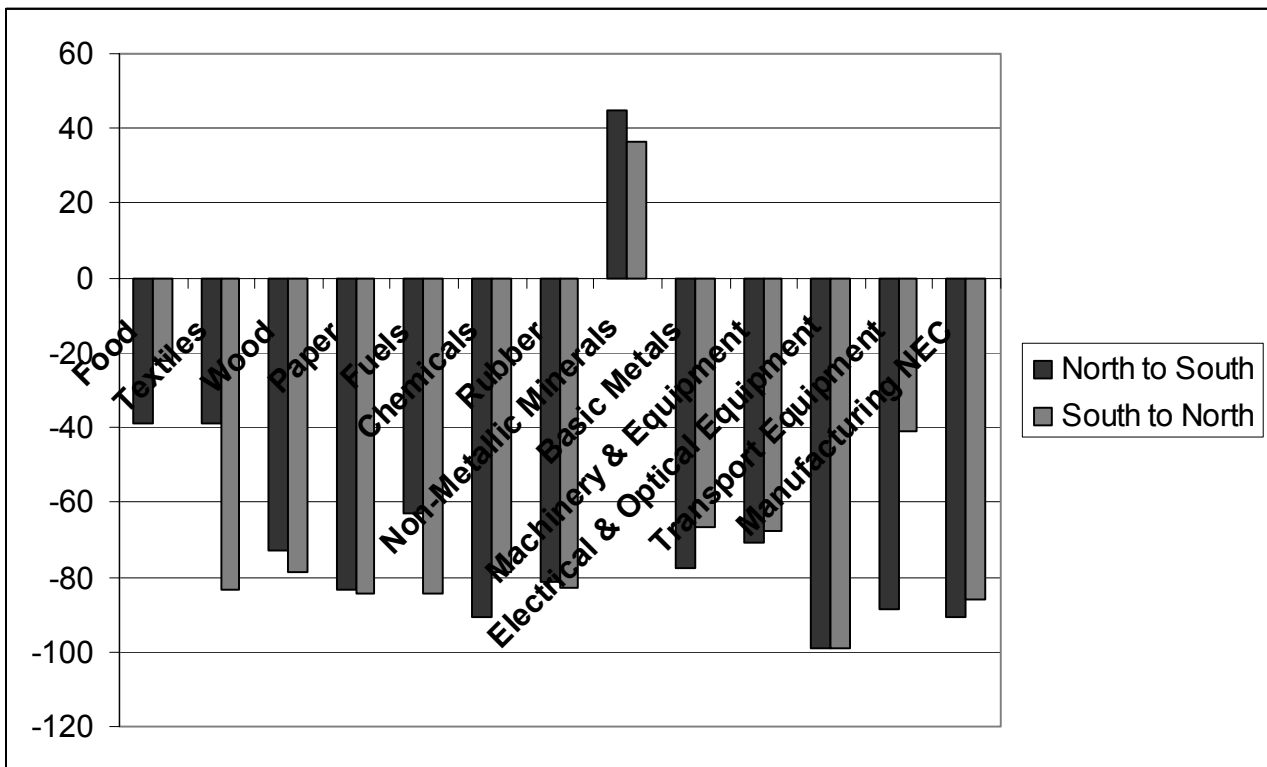
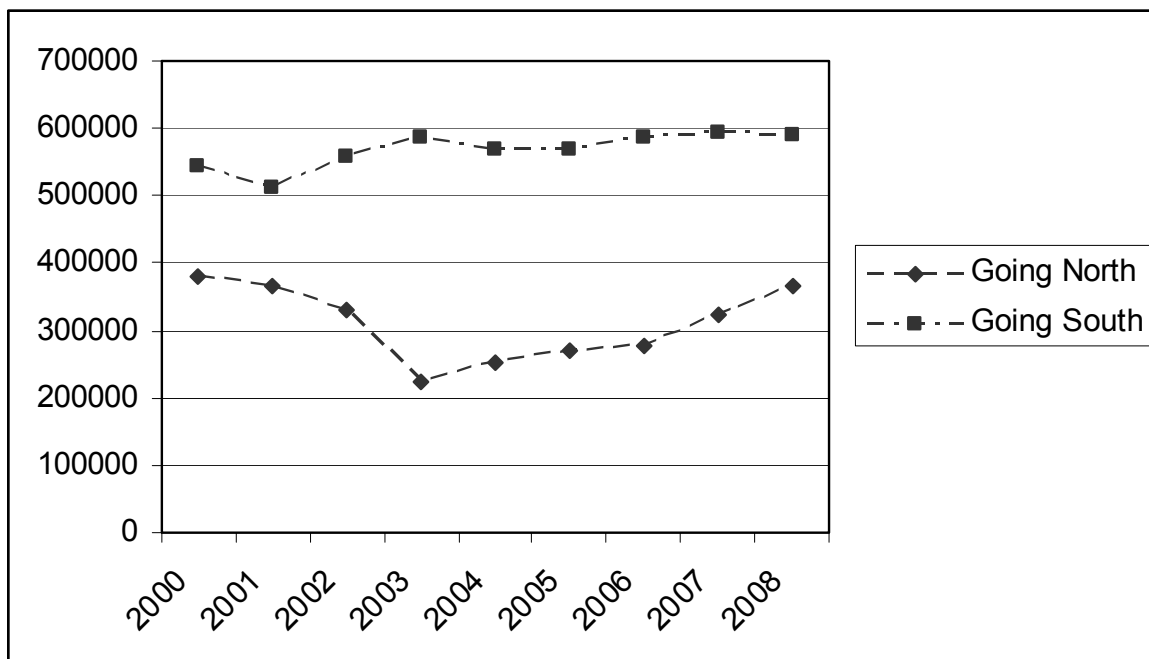


Figure 5. Cross-border tourism statistics, 2000-2008



Speaking of crossing the border Figures 6 and 7 show how people choose to do this. These figures for 2008 are based on average daily volumes but the counters for the last two months of 2008 on the Newry/Dundalk road have not been done. If you've had the misfortune to be caught on the road over the past few months the

figures would seem well above the 22,000 earlier in the year. One thing to note is that the car is certainly king. Over the past few years it is increasingly the way people cross the border—in spite of the free travel passes for bus and train.

Figure 6. Cross-border traffic counters, 2001-2008

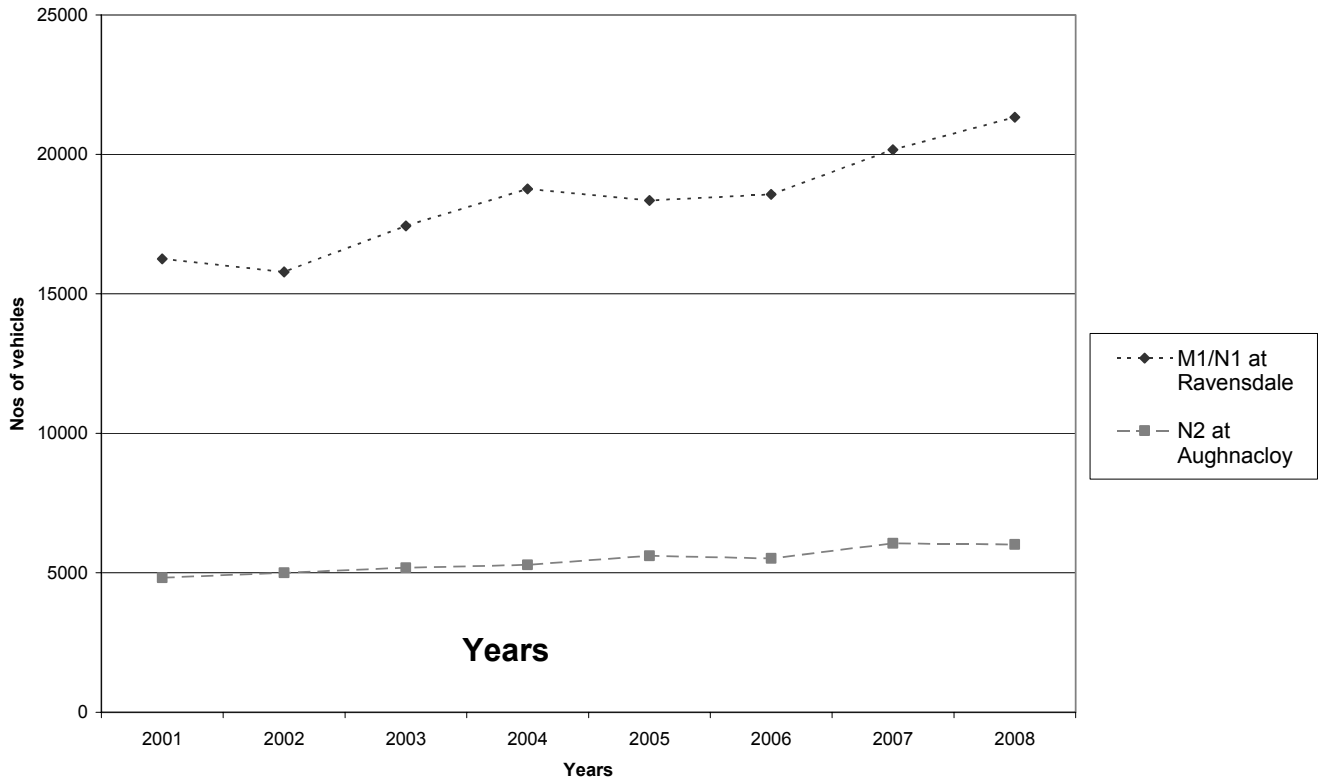
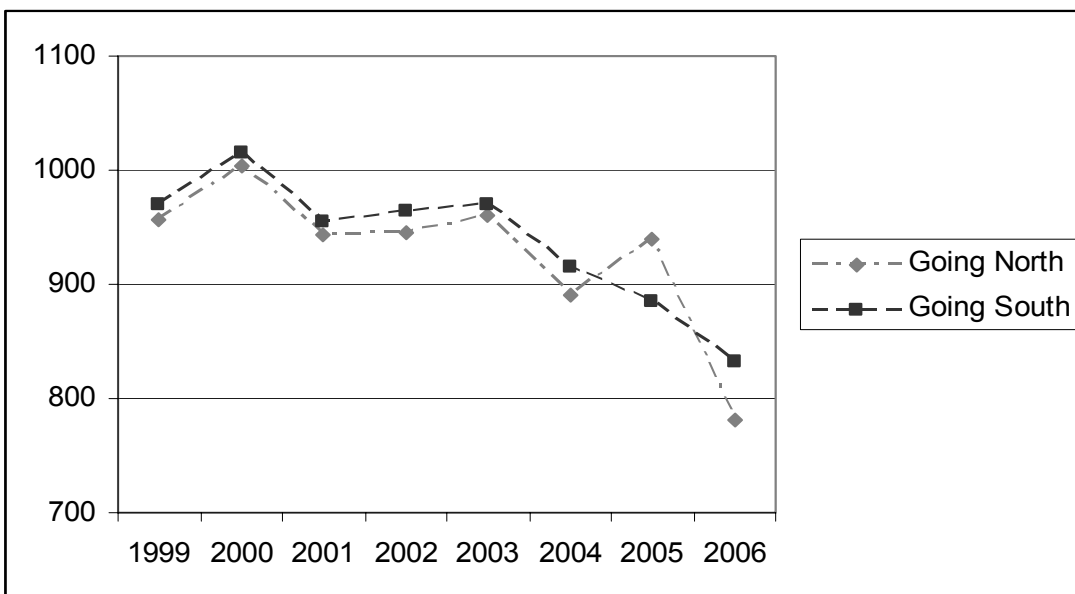
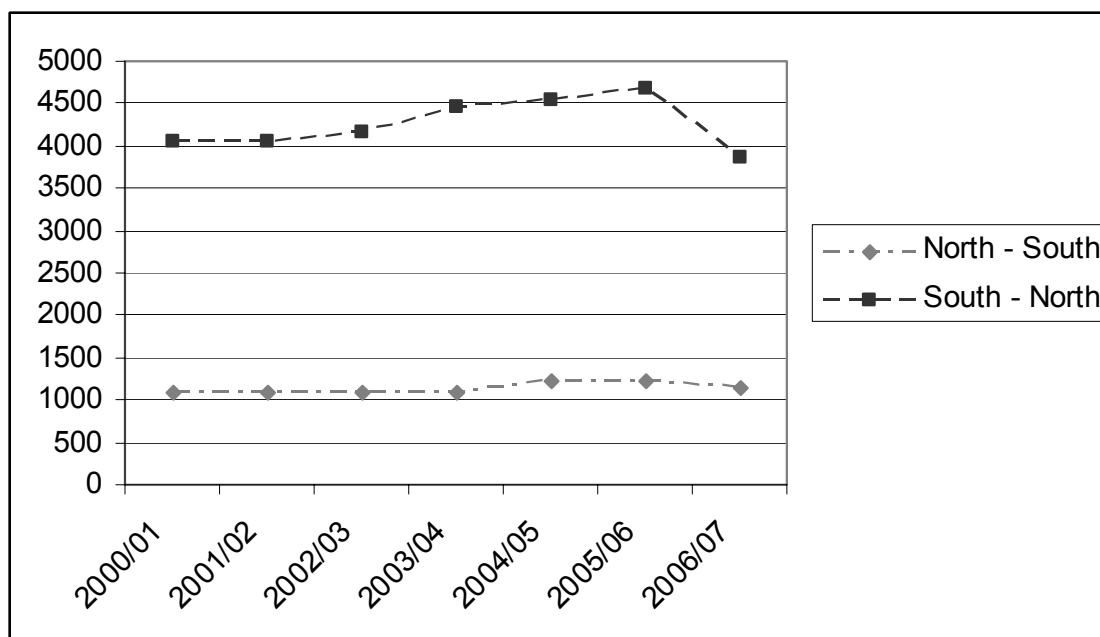


Figure 7. Cross-border rail and bus passenger statistics, 1999-2006



With regard to the numbers crossing the border for work it is a Donald Rumsfeld moment with some “unknown unknowns”. Back in 2000 it was calculated at 13,000 people but this was almost certainly an underestimate as it did not include sub-contractors or others working on a contractual basis. In terms of student numbers Figure 8 shows that they have remained low. Only 1,000 and 1,200 head South to study each year and around 4,000 go in the opposite direction. Financial assistance and choice of subjects are surely important for decisions but more work needs to be done on this to explore the trends.<sup>6</sup>

Figure 8. Cross-border student flows, 2000/01-2006/07



## CONCLUSIONS

Against the problematic short-term economic environment and intensely competitive medium-to-long term outlook every source of advantage needs to be grasped if the opportunities on offer are to be exploited. Some of the opportunities are based upon evidence that the border is continuing to cause market failure and to reduce the efficiency of the delivery of public goods and services. North-South initiatives, carefully selected on the basis of tackling these border effects, can be an important source of competitive advantage.

The initiatives have the potential to deliver mutual benefits to all parts of the island. The benefits include creating greater gains in trade and investment, such as the growth in cross-border trade (up 5.5% in the difficult trading conditions of 2007 and at least continuing to grow in a North-South direction in 2008). There will also be

<sup>6</sup> One interesting article has pointed out that the numbers from the South applying to Queen’s University for the academic year 2009-10 have risen by 13%; see “Queen’s applicants from Republic rise”, *Irish Times*, 18 February 2009.

the potential to promote wider economic benefits of knowledge transfer and perhaps delivering world class sectors (say in renewables) via networks and clusters where North and South separately will find it hard to compete globally.

Cooperation can also continue to create opportunities through the reduction market (or competition) failures which are caused largely by imperfect flows of relevant business information. If we are looking for a good current example of where better information is driving competition and ought to lead to better deals for the consumer, then one need look no further than retail and cross-border shopping as a good case in point. The other side of this issue is the opening of access to new or “missing” markets, such as the €17 billion public procurement market or the wholesale and retail energy markets on the island.

Finally, and given present circumstances this is an important point, cross-border cooperation offers the opportunity to deliver more efficient and effective public services. Northern Ireland has certainly been a net recipient of assistance both in the delivery of the N1-M1 link and other cross-border projects planned under the Irish government’s National Development Plan 2007-2013. However, there is an opportunity in these times of scarcer resources to create efficiencies by reducing duplication in the planning and delivery of health, education and training services. There have been numerous projects, assisted by EU funding, to find better ways of delivering public services on a cross-border basis and the challenge now is to take the lessons learned to achieve better services on less resources. If this is achieved then cross-border economic and business cooperation can continue to deliver mutual benefits in the rest of this decade and beyond.

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