

Comprehensive study on the All-Island Economy



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the Office of the First Minister and Deputy First Minister,
the Department of Enterprise Trade and Investment,
the Department of Employment and Learning,
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and *InterTradeIreland*, supported by independent economic consultants:

Prof. John Fitzgerald of the Economic and Social Research Institute,
Prof. Mike Smyth of Queens University Belfast and
Prof. Stephen Roper of Aston University

and in close consultation with business leaders, North and South.

Contents

FOREWORD	3
1 EXECUTIVE SUMMARY	5
2 INTRODUCTION	13
3 STRATEGIC CONTEXT FOR NORTH/SOUTH ECONOMIC CO-OPERATION	15
4 INFRASTRUCTURE	21
5 SCIENCE, TECHNOLOGY AND INNOVATION	31
6 TRADE, TOURISM AND INVESTMENT PROMOTION	37
7 LABOUR MARKET AND SKILLS	41
8 ENTERPRISE AND BUSINESS DEVELOPMENT	45
9 REGULATORY ENVIRONMENT AND FISCAL MEASURES	49
10 THE NORTH WEST	53
11 CONCLUSION	57
APPENDIX A: COMPARISON OF THE TWO ECONOMIES	59

Foreword

We welcome this important study. It makes clear the strong economic imperative driving North/South co-operation. To be globally competitive we must exploit the opportunities of all-island collaboration. To make the knowledge economy a reality in Ireland North and South, the opportunities of cross-border co-operation in R&D should be eagerly grasped.

In the area of infrastructure, more joined up planning and delivery will give better outcomes for people throughout the island. A coherent transport infrastructure is vital for the balanced regional development of this island and to support the development of areas which have historically enjoyed less economic success including the border counties and the North West.

The study represents a new level of North/South economic co-operation. Along with the fresh initiatives which will be progressed on a collaborative basis the study, importantly sets out a compelling vision of a strong competitive and socially inclusive island economy with island wide clusters whose strength and development is not impaired by the existence of a political border. This must be our aim if we are to compete on the world stage and deliver sustained economic benefits for everyone.

We look forward to further development and implementation of the goals and actions contained in the Study both in the weeks to come and as part of the agenda of the restored institutions.



**Dermot Ahern TD
MINISTER FOR
FOREIGN AFFAIRS**

27 October 2006



**Rt Hon Peter Hain MP
SECRETARY OF STATE
FOR NORTHERN IRELAND**

1 Executive Summary

Introduction

Though economic development in both parts of the island has sometimes followed different paths, both Ireland and Northern Ireland are on the cusp of an economic transition that will see them move to a new 'innovation oriented' stage of development. In making this transition successfully, both economies face similar challenges related to the increasing pace and intensity of global competition. In such an intense environment every source of competitive advantage must be exploited. This report explores how all-island collaborative action can be one such source.

Future Vision

The vision must be of an island characterised by a strong competitive and socially inclusive island economy with strong island-wide economic clusters whose development is not impaired by the existence of a political border. The aim of policy should be a world-class all-island economy which manifests itself in comparable levels of economic dynamism and performance in both parts of the island. For Ireland this means consolidating its position as one of the world's most globalised economies. For Northern Ireland it means developing the capability to become more fully integrated into the global economy. For both, it means building up the competitive strengths, particularly in the areas of infrastructure, R&D and in the areas of skills formation and innovation which provide the edge in securing

a strong position in the knowledge economy of the future. Some of the steps to achieve this vision will best be taken by each jurisdiction. There are other respects in which collaboration or concerted action by both, working together, will be needed. It is with the latter that this study is concerned.

Economic basis for all-island collaborative activity

The report identifies collaborative actions to address the competitive challenges facing both parts of the island and the economic problems that persist as a result of the border with these being pursued where they are cost effective and deliver all-island benefits.

From a purely economic perspective, appropriate areas for Government action arise where there is market failure or where the Government is involved in the provision of public goods, such as infrastructure, or public services such as health and education. The case for an all-island approach is made where the market failure arises from the existence of the border or where the public goods and services could be more efficiently provided on a co-ordinated basis.

The gains from such collaborative action will be all-island benefits and will lead to mutual advantage. However, it is recognised that in some cases, the incidence of the economic gains may be variable in different regions or across both jurisdictions within an overall context of bringing benefits to the island.

Areas for collaboration

The study identifies a number of areas where co-ordinated policy intervention can prove beneficial to the citizens in both jurisdictions on this island.

These include

- interventions to support research and development and the development of the knowledge economy;
- interventions in the education and training systems to enhance human capital;
- enhanced co-operation in the provision of health and educational services;
- enhanced co-operation and co-ordination in the provision of key infrastructure including energy, transport and telecommunications;
- co-operation on trade and investment promotion;
- enhanced co-operation in support of enterprise and business development; and
- improved regulatory environment (including fiscal measures).

Infrastructure

Both Governments are undertaking massive investments in infrastructure. Taken together, total North and South investment in infrastructure could amount to over €100billion/£68billion over the next ten years. This presents an unprecedented opportunity to work together to create world class infrastructure and maximise returns on these investments.

Co-operation on infrastructure will deliver:

- more efficient planning;
- more efficient, joined-up delivery;
- better value for money;
- more balanced regional development, addressing border effects;
- economies of scale in public investments; and
- better deals from financial markets.

Spatial Planning

Co-ordinated spatial planning and development on the island of Ireland facilitating better integration between the considerable capital investment anticipated over the coming years.

- Develop a new framework for collaborative action between the two spatial planning strategies on the island.

Roads

An integrated and regionally-balanced road network, enhancing key routes between the major urban centres on the island. High level goals include

- Completing the upgrade of the critical Dublin-Belfast route;
- Examining the future of strategic road links, including the routes from Belfast and Dublin to the North West; and
- Providing significant funding for cross-border routes under Transport 21 and NI Investment Strategy plans.

This is a key prerequisite for the development of thriving cross-border economic corridors, especially in those parts of the island that have historically enjoyed less economic success, such as the border counties and the North West.

Rail

An integrated rail network throughout the island can further underpin economic growth.

- The model for co-operation in rail services is the Belfast/Dublin Enterprise Service. The two Governments are committed to reviewing both the frequency of services and journey time of this key service.

Airports and Ports

A market-led all-island approach to developing ports, airports, air routes and access – while promoting competition – can result in more effective strategic planning, better investment decisions and an improved service to business and consumers.

- The two Governments have jointly committed €15 million to the development of the City of Derry Airport for the benefit of citizens throughout the North West.

Energy

Both Governments face an increasing challenge to provide a reliable, secure and competitively priced energy supply on the island for businesses and consumers alike. Developing this supply will be key in maintaining and enhancing competitiveness and economic growth.

High level goals are to:

- Increase electricity generating capacity;
- Enhance interconnection of the electricity and gas supply systems, North and South (including enhanced East/West interconnection);
- Enhance gas storage facilities on the island;
- Promote renewable energy including significant progress on concepts such as micro-generation, bio-fuels and solar, marine and wind generation;
- Co-ordinate regulatory activity;
- Address climate change and emissions policies; and
- Promote energy efficiency on an all-island basis in 2007.

Telecoms

Both Governments are working together to stimulate competition and investment in high speed telecoms on the island to help deliver a number of high level goals, including

- securing competitively priced cross border telecommunications services;
- increased international connectivity links between the island and North America and Europe; and
- improving accessibility in all areas, but with particular attention to rural & marginalised communities, to advanced communications and information technologies.

Science, Technology and Innovation

Given the loss of competitiveness in traditional industries and the low current spend on R&D compared to many competitor economies, there is an urgency attached to making the knowledge economy a reality in Ireland, North and South. Accordingly, the opportunity afforded by cross border collaboration in this area should be eagerly grasped.

High level goals

- Promote high level collaboration on the island to help offset the limitations of scale in both jurisdictions and provide a stronger base from which to develop international contacts;
- Connect the island's research community to international research networks;
- Develop greater policy coherence in science, technology and innovation; and
- Stimulate all-island collaboration in R&D and secure the optimal exploitation of the competences in research across the island.

Actions

The next Irish Government Call for Proposals for the establishment of a new Centre for Science, Engineering and Technology will be made on an all-island basis;

Establishing a new All Island scheme to promote and support increased participation by small and medium sized enterprises (SMEs) on a cross border basis for the mutual enhancement of the draw down of EU funds.

Establishing arrangements so that companies throughout the island can develop collaborative relationships with research centres in the other jurisdiction in areas of mutual benefit.

All-island mapping study of centres of research and technological development to facilitate greater collaboration between the institutions including technology and knowledge transfer

Trade, Tourism and Investment Promotion

High level goals

- Maximise support to companies in foreign markets through pooling of resources overseas;
- Develop the island's attractiveness to international investment by working together on enhancing the island's business environment;
- Secure maximum collaboration in export promotion; and
- Enhance the attractiveness of the island as a location for inward investment through collaborative action.

Actions

Opening up of trade missions whether sponsored by Enterprise Ireland or Invest NI, to companies across the island.

Making the services of the overseas offices of Enterprise Ireland and Invest NI available to companies from across the island.

Enhanced collaboration between IDA and Invest NI in promoting the island for inward investment with an initial focus on collaboration around the business operating environment so as to enhance the attractiveness of the island for Foreign Direct Investment and other areas with potential for mutually beneficial collaboration, such as research, identifying best practice and sharing market information, to be further explored.

Labour Market and Skills

The changing nature of the global economy means that significant further investment is needed in the island's human capital. While much of this investment will be undertaken independently, North and South, there are areas where a co-ordinated response will produce better results.

High level goals

- Enhance the efficiency of the island's labour market and ensure that sufficient and appropriate skills are in place to encourage sustained growth;
- Develop greater policy coherence, underpinned by all-island skills mapping and forecasting; and
- Maximise opportunities for co-operation in further and higher education programmes on a cross border basis.

Actions

Both skills expert groups working together to ensure that the evidence is available to underpin policies which will deliver the necessary workforce skills across the island;

Optimise the utilisation of the skills pool on the island, particularly in high growth sectors such as ICT and financial services; and

Employment services North and South exploiting existing technology to improve information and access to job opportunities on an all-island basis.

Enterprise and Business Development

High level goals

- Stimulate entrepreneurship and start-ups on the island through all-island business/SME support programmes; and
- Create all-island business networks and clusters.

Actions

Networks Conference taking place in January 2007 to develop an all-island approach to business development through knowledge exchange;

Targeted Skillnets Learning networks to be opened up on an all-island basis; and

Establishing a Cross-Border Entrepreneurship Initiative promoting entrepreneurship, business linkages and knowledge-sharing, involving Third Level colleges on both sides of the border.

Fiscal and Regulatory Issues

The study recognises that fiscal issues are an important factor in economic competitiveness. Achieving the right balance between competitive taxes and adequate provision of public goods is a challenge faced by both Governments. In Northern Ireland, attention is focused on the need for fiscal measures, including a reduction in corporation tax, to stimulate economic growth. The study notes the recent recommendations from the Assembly's sub group on these issues and acknowledges that, following on from recent political developments, further discussions are planned at Government level.

Irrespective of the outcome of those discussions, there are many important steps which can be taken. For example, on regulatory issues, both Governments are continuing to work together to address the differences in the regulatory environment in order to develop a truly all-island economy.

Health and Educational Services

The study outlines that co-operation on both the planning and delivery of public services and infrastructure, such as in health and education, can result in more efficient use of new facilities, better value for money, more balanced regional development and improved access to services and facilities throughout the island. It recommends that both Governments should explore opportunities for all-island co-operation in these areas.

Conclusions

The report sets out a clear and strong economic rationale for all-island economic co-operation.

Clear high level goals to work towards have been established and the first steps towards immediate implementation of these are being progressed with a range of initiatives in the key areas.

The two Governments, along with key stakeholders, will now jointly develop a more detailed programme of work in each of the areas, including implementation plans setting out timelines and responsibilities for delivery. They will also scope out further opportunities for co-operation in the education and health sectors.

The two Governments look forward to this work forming an important part of the agenda of the restored institutions.

2 Introduction

The British Irish Intergovernmental Conference in February 2006 requested that a comprehensive study be undertaken to identify opportunities for further practical co-operation on the development of a more competitive and prosperous all-island economy for the benefit of all and to examine how such co-operation might best be taken forward.

This study has been prepared by officials from the two Governments (the Office of the First Minister and Deputy First Minister, the Department of Enterprise Trade and Investment, the Department of Employment and Learning, the Department of Finance and Personnel, the Department of Foreign Affairs, the Department of the Taoiseach, the Department of Finance, the Department of Enterprise, Trade and Employment) and *InterTradeIreland*, supported by independent economic consultants (Prof. John Fitzgerald of the Economic and Social Research Institute, Prof. Mike Smyth of Queens University Belfast and Prof. Stephen Roper of Aston University) and in close consultation with business leaders, North and South.

This study examines the strategic context for North/South economic co-operation, looking at the strategic rationale and economic basis for all-island collaboration as well as the benefits that can accrue. The study goes on to focus on the potential for co-operation in the areas of infrastructure; science, technology and innovation; trade, tourism and investment promotion; labour market and skills; enterprise and business development; regulatory environment and fiscal measures. Finally, the study takes a look at the potential for co-operation in a specific region of the island, the North West.

Future Vision

The future vision must be of an island characterised by a strong competitive and socially inclusive island economy with strong island-wide economic clusters whose development is not impaired by the existence of a political border. The aim of policy should be a world-class all-island economy which manifests itself in comparable levels of economic dynamism and performance in both parts of the island. For Ireland this means consolidating its position as one of the world's most globalised economies. For Northern Ireland it means developing the capability to become more fully integrated into the global economy. For both, it means building up the competitive strengths, particularly in the areas of infrastructure, R&D and in the areas of skills formation and innovation which provide the edge in securing a strong position in the knowledge economy of the future. Some of the steps to achieve this vision will best be taken by each jurisdiction. There are other respects in which collaboration or concerted action by both, working together, will be needed. It is with the latter that this study is concerned.

3 Strategic Context for North/South Economic Co-operation

Introduction

Though economic development in both parts of the island has sometimes followed different paths, both Ireland and Northern Ireland are on the cusp of an economic transition that will see them move to a new 'innovation oriented' stage of development (Appendix A contains a summary and comparison of the two economies). In making this transition successfully, both economies face similar challenges related to the increasing pace and intensity of global competition. In such an intense environment every source of competitive advantage must be exploited. This report seeks to explore how all-island collaborative action can be one source of such advantage.

The report identifies the main strategic reasons for economic collaboration on the island. It identifies critical economic tests that proposals for collaborative action must pass and outlines a series of benefits that could be expected from enhanced collaboration in specific areas.

Strategic Rationale

Common Challenges

The two economies on the island of Ireland have had very different histories over the last century. Now, however, just over a decade after the completion of the EU internal market, the two economies on this island face a common set of challenges. These have been identified and agreed by the two Governments in the context of the Lisbon Agenda as the need to:

- Respond to globalisation and maintain competitiveness;
- Continue to grow employment and employment rates;
- Increase productivity;
- Innovate and develop greater R&D capability;
- Enable people to acquire and maintain the skills needed for a modern, dynamic knowledge economy and to adapt to changes over their working lives;
- Promote enterprise and entrepreneurship;
- Provide a positive climate for business, including through more efficient regulation;
- Remove barriers to physical, labour and academic mobility as part of the completion of the European single market;
- Build world-class infrastructure;
- Achieve equality and good relations; and
- Maintain the highest standards of environmental protection.

Today both economies on the island face enhanced competition from low cost locations, both within the EU and from the Far East. The effect of this enhanced competition will be that for firms operating in the tradable sector to be successful they will have to rely more and more on the superior skills of their labour force and on the research and innovation which enhances their overall competitiveness.

The policies that have been deployed in the two economies in the past in promoting industrial development may need adaptation to a world where success will increasingly come from the knowledge based services sector. The tradable sector will have to shift rapidly towards knowledge intensive activities employing skilled labour.

A second challenge for policy-makers North and South is the need to ensure that the educational attainment of the island's labour force is suitably upgraded.

A third focus of policy in recent years has been the promotion of investment in research and development and innovation. Public policy in both jurisdictions has moved to develop R&D in the higher education sector. In addition, incentives have been strengthened to persuade the private sector to raise the level of its investment in R&D and innovation.

Finally, for the kind of business that is likely to develop on the island of Ireland, competitiveness will depend on attracting skilled labour. By making the island of Ireland an appealing place to live in, the cost of attracting and holding skilled labour will be reduced, making the economies on the island more attractive as a destination for investment.

Addressing the Border Effect

Borders represent the interface between national economic and social systems. On each side are distinctive institutional supports for economic development and business activity. The difference in the institutional architecture and accompanying regulation imposes additional transaction costs on firms wishing to expand across the border.

As a result, natural markets become fragmented along territorial lines and the opportunity to develop economies of scale and strong indigenous industries based on a larger home market is lost. Reduced economic interaction also decreases the ability to develop agglomeration economies, the input-output linkages, pooled labour skills and knowledge transfer, which are the building blocks of an innovation economy. Firms are likely to shun border regions, as locating there would curtail their market or supply area. Instead, economic activity is pulled towards regions that are more central relative to domestic markets. In turn, denser networks of supply and demand relations develop in the core reinforcing the disadvantages of a peripheral border location, creating ever more marginal areas. Poor links to national infrastructure networks compound the problem. Adopting an all-island approach to policy development can put border areas at the centre rather than the periphery of a new functional economic area. This can have major positive ramifications for areas such as the North West.

Market Widening

A further important effect of enhanced cooperation between North and South should be through a larger domestic market or "market widening effect". So called "information asymmetries" give rise to close and repeated "customer" connections that become embedded within sovereign jurisdictions. Research from *InterTradeIreland* has shown that companies North and South, through lack of information, tend not to look to the other jurisdiction for business opportunities.

In a more open market environment, certain industries will flourish as previously unexplored business opportunities are exploited. Companies may be encouraged to redesign logistical strategies and treat Ireland as one commercial zone rather than two separate entities. New logistical policies may involve companies changing suppliers, improving the operation of sub-contracting networks, reorganising distribution networks or even moving to a new location. All these changes are likely to have competitiveness boosting effects. The "market widening" effect could be particularly beneficial to the North given its relatively high dependence on the public sector and could aid the development of a large and more dynamic private sector economy.

Economic basis for all-island collaborative activity

In exploring options for further collaborative actions that will address the competitive challenges faced by both parts of the island and the economic problems that persist as a result of the border, the two Governments are proceeding on the basis that any strategy should be cost-effective – the benefit it produces for citizens should be greater than the costs it will impose on the taxpayer since public funds invested in developing cross-border measures have a real opportunity cost.

The starting point, from a purely economic perspective, in determining the role of co-ordinated Government action to develop the island economy is to establish whether the existence of the border itself is a cause of market failure or whether the provision

of public goods could be better achieved on a co-ordinated island basis rather than by each Government acting independently.

Thus before policy measures are included in an all-island economic strategy the following two tests must both be satisfied:

- There must be evidence of market failure or evidence that the good or service is a true public good¹.
- There must be evidence that the market failure arises from the existence of the border or, in the case of the public good, the provision of the public good (or service) could be more efficiently provided on a co-ordinated basis.

If the first test is satisfied but not the second then the two Governments are better acting independently within their proper jurisdictions to address the market failure or to provide the public good.

Although the private sector of the two economies has had the opportunity to adapt to an integrated EU economy, the situation on the island has for too long been characterised by 'back to back' development that has resulted in informational deficits and imbalances which prevent businesses from capturing opportunities on the island. Where the public sector is the provider of goods and services, there are likely to be significant opportunities for coordinated action. This is because of the fact that the public sector North and South, of its nature, has not been subject to the same market forces arising from EU integration as the private sector.

¹ Government has a vital role in providing public goods and services. There is a wide range of public goods and services that the market cannot provide because the use of the public good cannot be charged to individual users. Such public goods include infrastructure such as roads, and services including security, health and education services.

The state also has a role in redistributing resources within the economy consistent with its wider social objectives. Distributional issues are best handled by the national authorities each operating in their own jurisdiction. However, if measures undertaken as part of an all-island strategy also address some of the social objectives of one or both of the Governments this must be considered an additional benefit. The same must apply to measures that enhance the quality of the environment.

Benefits of all-island collaboration

In general terms, where a policy measure satisfies the two tests suggested earlier, and is implemented effectively, benefits should be evident either in terms of enhanced productivity and competitiveness and/or quality of life. The benefits of collaborative actions will manifest themselves in several ways depending on the area of collaboration. In general greater economic collaboration between regions can:

- create gains in trade and investment (and it is encouraging to note that cross-border trade is up by 5.5% in 2005);
- generate economies of scale;
- deliver more efficient and effective public services;

- promote wider economic benefits of knowledge transfer via networks and clusters (so called agglomeration economies);
- reduce market failures caused largely by an imperfect flow of relevant business information;
- open new or 'missing' markets; and
- deliver more balanced regional development, addressing border effects.

Ideally, the gains from more co-ordinated policy activity will be all-island benefits – indeed this is a requirement of the 'tests' outlined earlier - and it would therefore be inappropriate to restrict or limit the gains by jurisdiction. Thus the distribution of gains from such policy intervention – or participation in any joint activity - may well be different to the relative levels of investment by each jurisdiction in the measure. The incidence of the economic gains may be variable in different regions or across both jurisdictions with an overall context of bringing benefits to the island.

To maximise their all-island benefit, competitive all-island measures should therefore be implemented on an open all-island basis with no jurisdictional restrictions. Similarly, schemes intended to develop partnership arrangements should be implemented without geographical restriction on the partners involved. This allows

organisations to seek the best partners for their endeavour without reference to location, again maximising the benefits of the initiative to the all-island economy.

Policy interventions which meet the two tests outlined earlier are likely to yield benefits on an all-island basis, irrespective of where firms or individual beneficiaries are located. Restrictions on participation in such schemes dependent on location are, however, likely to reduce the potential gains to the all-island economy by forcing organisations to choose sub-optimal partners. Moreover it is clear that the distribution of benefits from any collaborative measures is unlikely to either be even or reflect different jurisdictions' investment in the intervention. This potential needs to be recognised in the development of any specific measure and reflected in any evaluation of subsequent outcomes.

Conclusions

This section has considered the common challenges faced by the two economies North and South. There is a clear rationale for co-ordinated Government intervention on an all-island basis to improve the economic prospects for all citizens. The likely benefits that a co-ordinated response could achieve are considered. Such benefits accrue as market failures are removed, border effects are addressed, domestic markets are widened and public goods and services are delivered more efficiently and effectively, and the resultant opportunities are identified and exploited.

The study identifies a number of areas where co-ordinated policy intervention would prove beneficial to the citizens in both jurisdictions on this island. These include intervention in the education and training systems to enhance human capital; intervention to support research and development and the development of the knowledge economy; co-ordinated provision of key infrastructure; enhanced co-operation in the provision of health and educational services; enhanced co-operation in the provision of electricity and telecommunications infrastructure; an improved regulatory environment (including fiscal measures).

4 Infrastructure

Infrastructure is a key driver of economic growth and competitiveness.

It is the aim of both Governments to develop a world-class infrastructure on the island. There are significant opportunities for them to work together in achieving this goal.

Both Governments are undertaking massive investments in infrastructure. Taken together, total North and South investment in infrastructure could amount to over €100 billion/£68 billion over the next ten years. This presents an unprecedented opportunity to work together to maximise returns on these investments.

Co-operation on infrastructural issues will result in:

- more efficient planning;
- more efficient, joined-up delivery;
- better value for money;
- more balanced regional development, addressing border effects;
- economies of scale in public investments; and
- better deals from financial markets.

Co-operation can take place on a range of levels, including:

- sharing information and learning from best practice;
- shared research and analysis;
- joint planning; and
- joint implementation, joint projects.

This Chapter examines primarily the potential benefits of co-operation in relation to the island's economic infrastructure. Health and educational infrastructural issues are dealt with separately.

Infrastructural Investment on the Island

The Investment Strategy for Northern Ireland, 2005 to 2015 reveals different priorities for physical infrastructural development in Northern Ireland compared to the planned investment in the South out to 2010 reflected in the five year capital envelopes published in Budget 2006.

There is much greater attention given to health, education and housing in Northern Ireland whereas in the capital envelope transport is the overriding priority in the South. To some extent the allocations represent different endowments of infrastructure for historical reasons and consequently, different needs.

Table 1: Allocation of Investment, % of total

	South	North
Transport	38.1	15.7
Health	7.6	18.2
Education	8.8	26.1
Public admin	12.3	7.1
Productive Sector	7.4	2.6
Agriculture	2.9	2.5
Housing	7.6	12.7
Environment	15.2	15.1

Table 2 shows the actual annual allocations in euro per head. This illustrates the fact that the investment effort in the South is much greater than in the ISNI. The Southern allocations amount to around 80 per cent more than the total allocations in the ISNI. The allocation for transport in the South is over four times that in the ISNI. The ISNI is much more heavily weighted in favour of social infrastructure, broadly defined.

In the case of education the ISNI allocations underpin a strategy for significant investment in second level education. In the case of environment the proposed investment in the North is front end loaded and reflects a need to ensure compliance with the EU urban waste water directive. For the South this compliance has been largely achieved through very substantial allocations over the last fifteen years.

The fact that the allocation for social housing in absolute terms is similar in Northern Ireland to that for the South, in spite of the much greater pressure on the housing stock in the South, may represent different priorities as well as differences in the ability of the building sector to deliver the necessary infrastructure at reasonable cost.

Table 2: Allocation per head per year, € , 2005 Prices

	South	North
Transport	981	225
Health	195	261
Education	226	375
Public Admin.	317	102
Productive Sector	191	37
Agriculture	74	36
Housing	196	182
Environment	392	217
Total	2573	1436

Spatial Planning

High level spatial development strategies have been put in place both North and South over the past ten years. To initiate discussion on a strategic framework for Northern Ireland a discussion document, *Shaping our Future*, was initially published by the Department of the Environment in November 1997. It was the subject of extensive consultation within Northern Ireland and the Regional Development Strategy for Northern Ireland (RDS) was finally published in December 1998. Progress in establishing a spatial plan for Northern Ireland preceded the development of the National Spatial Strategy (NSS) which was commenced in 2000 and published in October 2002. However, in preparing the National Spatial Strategy the expert advisory group inputting to the process included a senior official of the then Department of the Environment responsible for the development of the RDS in Northern Ireland and the development of

the NSS was able to draw on the concepts and proposals in the RDS. As a result, there is de facto a significant consistency in approach across the two documents and the two Governments have already established a solid basis for planning for the future spatial development of the island.

Within the context of the detailed implementation of both the RDS and NSS, the two Governments are now developing a new framework for collaborative action between the two strategies.

The strategies share many mutually interdependent characteristics such as the recognition of the potential of the Newry/Dundalk axis and Letterkenny/Derry as the gateway for the North West.

Much practical and day-to-day co-operation is already occurring in areas such as investment in energy and transportation networks. The collaborative framework will, however, build on existing co-operative progress and take a shared high level and non-statutory view of how to better co-ordinate the implementation of spatial planning policies on the island of Ireland. This will include, for example, ensuring that the considerable capital investment expenditure anticipated over the coming years is better integrated both between North and South and with spatial planning objectives such as enhancing international competitiveness of the Dublin-Belfast corridor and enhancing the performance of the North West.

The collaborative framework will also be based for the first time on new all-island data sets and thematic mapping which will greatly enhance evidence-based policy and strategic decision-making on an all-island basis.

This framework will likely include elements such as:

- A commitment to encourage the development of a focussed range of regional and local spatial planning initiatives for key development areas identified in both spatial strategies. For example, the NSS identified three gateways with cross-border significance (Sligo, Dundalk, Letterkenny). The RDS identified Londonderry as the regional city and hub for the North West. It also identifies both Newry and Enniskillen as major inter-regional gateway cities and towns.
- Identification of certain highly strategic and targeted investments that would be vital in supporting key aspects of both spatial strategies such as improved accessibility to areas identified for accelerated growth in the strategies.
- A commitment to develop an on-going programme of spatial planning research to further deepen understanding of development patterns, trends and their drivers on an all-island basis. This will include the development, for the first time, of a comprehensive all-island statistical database.

The collaborative framework is being developed alongside the highly complementary and parallel North West Gateway Initiative and the specific commitment by both Governments to prepare a high level and non-statutory spatial development framework for the North West Gateway (see Chapter 10). This framework will become one of the demonstration projects under the wider collaborative framework.

By improving the strategic context for planning on the island, the two Governments can deliver a clearer spatial policy framework. Within this framework all the key infrastructure providers clearly understand what the strategic development objectives are and the need for strong linkages and co-ordination between sectoral policy approaches. For example, co-ordination in the provision of transport and healthcare is essential in developing high quality healthcare facilities that are easily accessible. Co-operation also provides a continuing impetus to create enhanced, globally competitive and dynamic economic conditions on the island of Ireland, which will be supported by the co-ordinated implementation of strategic, forward looking planning frameworks and investment in infrastructure of the type and scale necessary to sustain these conditions.

Transport Infrastructure

By working together, the two Governments can develop an integrated transport infrastructure, enhancing the efficient and cost-effective movement of goods and people throughout the island. This will be essential for generating economic growth and developing competitiveness.

Roads

Through effective co-operation, North and South can ensure joined-up development of the island's road infrastructure. This integrated infrastructure will be a key driver of competitiveness as well as ensuring a more balanced regional development on the island.

Road infrastructure development is being supported by significant investments,

both North and South. Transport 21 in the South provides for an investment of over €34 billion for transport infrastructure up to 2015, of which just over €16 billion is in roads. The Investment Strategy for Northern Ireland provides an indicative allocation of almost £2 billion in support of developing the roads infrastructure. The Regional Transportation Strategy plans for £1.37 billion to be invested between 2002 and 2012 on the investment priorities in relation to transport.

The current Regional Strategic Transport Network Transport Plan (RSTN TP) identifies major works schemes totalling about £1 billion of which around £800m will be invested in routes of major North/South significances. These routes are:

- Belfast – Londonderry (-Letterkenny);
- Belfast – Newry (-Dublin);
- Londonderry – Omagh – Aghnacloy (-Dublin); and
- Belfast – Enniskillen (-Sligo).

Within the proposed ISNI funding, a further £400m of major works schemes still have to be identified and Roads Service has just finished consulting on a range of strategic road improvements that would be expected to commence in the latter part of the 2005-2015 period. The priority list of schemes identified in the Consultation Document suggests that a considerable proportion of the investment proposed would be on the 'cross-border' routes identified above.

Similar plans are contained in Transport 21 for investment in routes of cross-border significance.

The two Governments have already co-operated effectively to upgrade the critical Belfast-Dublin link (A1/N1). The Northern part of this route will be fully-upgraded to at least dual carriageway standard in 2009 with the completion of the Newry to Dundalk cross-border section and the Beechill to Cloghue scheme.

There are also proposals for the upgrading of sections of the island's other key inter-urban routes.

The road network to the North West of the island, and the routes from Belfast and Dublin in particular, are being examined by the two Governments. Both recognise that this will be an important factor in addressing the particular needs of the North West region and achieving more balanced regional development on the island.

Bus and Rail

An integrated bus and rail network throughout the island can further underpin economic growth.

The model for co-operation in rail services is the Belfast to Dublin Enterprise Service. The two Governments are committed to reviewing both the frequency of services and journey time of this key service. Integrating the Enterprise fully into the urban transport networks will further enhance the service, reduce journey times and minimise delays for travellers. Both Governments are working to do this in Dublin and Belfast. In Dublin this will focus on integration with other rail and light rail services including, in due course, integration with the proposed METRO to Dublin Airport, as well as with the bus networks.

Co-ordination with other inter-city bus and rail links will develop the service's contribution to regions throughout the island. This includes, in particular, further alignment with the Dublin to Cork route. Upgrading the Belfast-Dublin-Cork Trans European Network (TENs) link route through the removal of speed restrictions has been identified as a priority by both Governments.

Radial links to Belfast, including the Belfast to Londonderry route, in co-ordination with the line to Dublin will be important in helping to ensure regional economic growth. These will be considered in 2007 following an assessment of the investment in new trains and the core railway network. In the interim, funding has been made available to maintain service levels.

Airports

A market-led all-island approach to developing airports and air routes can result in more efficient planning decisions.

This has been illustrated by the development of City of Derry Airport. By taking an all-island approach to the airport, the two Governments have jointly committed over €15m to its development which will benefit citizens throughout the North West region. This investment has been given EU state aid approval and is currently being finalised. This decision can act as model for other investments that have the clear potential to be mutually beneficial.

The Irish Government also supports the Derry to Dublin air service under the Essential Air Service Programme.

Ports

Competition between ports on the island, especially between Larne, Belfast and Dublin, has proved beneficial and the two Governments are working together in identifying the future capacity needs on the island.

In order to complete the picture of seaport capacity on the island as a whole, the two relevant Departments (Department of Transport and Department of Regional Development) co-operated in 2005 on an in-house study of current and projected capacity to 2014 at the principal Northern Ireland commercial seaports. This work fed into a study of capacity required to handle cargo, particularly for unitized trade, at Southern ports to 2014 and beyond.

The broad conclusions of the study have recently been published. One of these is that the port sectors in the South and North are complementary, in that a RoRo capacity surplus exists in Northern Ireland and a LoLo capacity surplus in the South.

The details of the studies provide an overall picture of capacity across the island of Ireland.

In addition to helping to define future capacity needs, the findings could be used to inform spatial planning considerations and strategic transportation investment needs.

Improved access to ports on the island is of considerable benefit to port users both North and South. This will continue to be advanced in the context of the respective public expenditure programmes and private provision.

Energy Infrastructure

Both Governments face an increasing challenge to provide a reliable, secure and competitively priced energy supply on the island. Developing this supply will be key in maintaining and enhancing competitiveness and economic growth. The price of energy is one of the key issues facing businesses and consumers alike throughout the island.

The mutual benefit to be gained by working together in this sector is already being seen and offers a model for best practice in developing co-operation between North and South.

The two Governments are working together to

- Increase electricity generating capacity;
- Enhance interconnection of the electricity and gas supply systems, North and South;
- Enhance gas storage facilities on the island;
- Promote energy efficiency and renewable energy including significant progress on concepts such as micro-generation, bio-fuels and solar, marine and wind generation;
- Co-ordinate regulatory activity; and
- Address climate change and emissions policies.

The Governments' all-island policy was set out in the November 2004 All-Island Energy Market Development Framework. The first element of this is the creation of a Single Electricity Market on the island in 2007. This will facilitate cross-border trading in electricity, encouraging greater efficiencies in electricity supply, ultimately benefiting consumers throughout the island.

This single market will be underpinned by the Governments' plans to improve the physical infrastructure through further interconnection. The second North/South electricity interconnector will enhance security of supply and double cross-border transmission capacity. It will help to promote competitiveness in the single wholesale market. The interconnector will be operational by 2012.

The Moyle electricity interconnector between Northern Ireland and Scotland, while originally constructed as a vital part of Northern Ireland's electricity infrastructure, already plays an important role in enhancing security of supply on the island and reducing costs for consumers. When a second interconnector between Ireland and Wales (or England) is completed early in the next decade the benefits will flow equally to electricity consumers in both jurisdictions.

The two Governments are also developing an all-island gas network. They are supporting the provision of key infrastructure – the North West pipeline from Carrickfergus to Londonderry, completed in 2004, and the South-North gas pipeline from Dublin to Antrim, completed in 2006. The completion of this pipeline will significantly enhance the security of energy supply within Northern Ireland.

The Irish Government is carrying out a feasibility study on the bringing of natural gas from the Mayo-to-Galway pipeline to Donegal, via Sligo, while Northern Ireland is considering carrying out a study into a gas pipeline to Fermanagh from a possible future Sligo-Donegal gas link. Both Governments are also engaged in a tendering process seeking suitably qualified parties to undertake a joint study on a common approach on natural gas storage and liquefied natural gas (LNG) on an all-island basis.

Renewable energies will play a key role in the island's future. By taking an all-island approach, the two Governments can make most efficient use of the island's significant renewable energy resources. This has involved the development of a long-term "2020 Vision" for all-island policy on sustainability in energy supplies, with a particular focus on renewable electricity.

The two Governments are laying the groundwork by undertaking, for the first time, an innovative all-island grid study. This will be a world-class piece of research into the potential for renewable energies to be incorporated into the island's electricity grid. This study will inform the long term development of any investment in the grids to enhance sustainability and promote renewable electricity generation.

Early and joined up planning can ensure that access to renewable energies can be increased throughout the island. Indeed, there are already significant levels of successful North/South partnerships through the Renewable Energy Installer Academy. This project aims to provide an all-island accreditation scheme for installers of micro-generation renewable technologies.

Increasing energy efficiency will be key in reducing demand across the island and decoupling economic growth from increased energy consumption. It will contribute to a reduction in carbon emissions, thereby contributing to both Governments' objectives in terms of sustainable development and climate change. By pooling resources and information, the two Governments can have greater impact in promoting efficiency. The two Governments are committed to development the South's recently launched energy efficiency awareness campaign on an all-island basis.

Information and Communications Infrastructure

Telecoms

The two Governments are working together to ensure that throughout the island there is access to the world class telecommunications infrastructure needed to overcome the islands physical peripherality and be competitive in the global economy. In Northern Ireland, 100% broadband availability has been achieved. In the South, the Government has initiated a process to deliver broadband to the last 15% to 20% of the population where it is currently uneconomic to do so.

Increasing access to high speed telecommunication services will be particularly important for border and rural areas in tackling relative peripherality and stimulating more balanced regional growth.

Working together, the two Governments can stimulate competition and investment in telecoms on the island. This will help deliver

- improved interconnection between telecoms networks, improving their efficiency and reliability;
- increased consumer and business access to competitively priced, high speed broadband facilities; and
- increased availability of telecoms services (voice, mobile and data) in border areas.

Against that background, the high level goals in the North/South context are as follows:

- To promote competitively priced cross border telecommunications services;
- Increased international connectivity links between the island and North America and Europe ;
- To improve accessibility in all areas, but with particular attention to rural & marginalised communities, to advanced communications and information technologies;
- To encourage closer relationships between research and development institutions in the South and in Northern Ireland where telecommunications services can increase productivity of research activities; and
- To encourage the development of regulatory regimes and practices that would facilitate the use of infrastructure on a cross border basis.

Wireless Spectrum Licensing

The two Governments are taking an all-island and co-ordinated approach to wireless spectrum licensing. The All-Island Working Group (AIWG) of ComReg and Ofcom are engaged in a process that is intended to lead to the licensing of wireless spectrum on an all-island basis from Spring 2007. This spectrum could potentially be used for broadband or other communications services, which could be particularly interesting for less developed remote and rural areas.

Mobile Roaming Charges

The two Governments have already proven the effect they can have by working together to address mobile roaming charges on the island. Jointly encouraging regulatory co-operation and stimulating consumer interest in this issue resulted in a number of mobile operators eliminating roaming charges on the island.

The Governments will continue to work together to reduce the impact of the border on mobile phone services and charges.

Waste and Water Infrastructure

The provision of essential infrastructure such as water supply and waste management will be needed to support sustainable economic development and enhance business competitiveness on the island.

The two Governments jointly funded a North-South Study on the feasibility of establishing a paper mill on the island of Ireland through the Waste and Resources Action Programme (WRAP). The study assessed the contribution a new paper mill could make to deliver a dynamic recycled paper market on the island of Ireland and was published in August 2006. It considered various options including packaging containers/cardboard boxes, cartons, tissue, printing and writing, newsprint, magazines. The report concluded that a tissue mill would present the best opportunity as sufficient quantity and quality of supply can be sourced locally, there is a local market for the outputs and a mill could be financially viable.

Consultants will commence an informal engagement with the business community and if there is sufficient interest, the project will move on to Phase 2 – a detailed economic assessment and financial analysis of the preferred mill option.

The report provides a very comprehensive analysis of the current market situation on the island for recovered paper and will assist in exploring ways in which stable markets and possibilities for reprocessing recyclable material can be identified and developed.

To the extent that cross border waste initiatives can be identified and advanced, it will be through joint efforts on the part of the border waste management regions in the South and their counterparts in Northern Ireland. Statutory responsibility for waste management planning rests with the relevant region.

A factor to be borne in mind is that any North/South waste infrastructure project would inevitably involve the movement of waste across the border. This could give rise to legal issues in terms of international restrictions on the movement of waste.

Northern and Southern officials also have recently established the North South Water Framework Directive Co-ordination Group which will meet regularly to ensure that proper administrative arrangements are in place to protect and enhance the water environment on a river catchment basis and to facilitate co-operation between the respective Departments North and South where river basins cross national boundaries.

5 Science, Technology and Innovation

This area is recognised in both jurisdictions as being of vital importance to future economic development and in enhancing the standing of the entire region in pursuit of mobile investment. This study has identified a number of measures which would significantly enhance North-South collaboration and add value to Government interventions on both sides of the border. In particular:

- the next Irish Government Call for Proposals for the establishment of a new Centre for Science, Engineering and Technology (CSET) will be made on an all-island basis;
- a pilot scheme is being developed to support increased engagement by SMEs in cross-border collaborations in the 7th EU Research Framework Programme (FP7); the scheme will be open to companies from both jurisdictions, with the aim of providing support for consortium building and proposal preparation;
- in order to maximise the potential for cross-border cooperation in FP7, further arrangements are being put in place to coordinate the promotion of the Framework Programme on an all-island basis, in areas of mutual benefit ; National Contacts Points will prioritise this activity and regular contacts will be promoted to ensure coherence of approach;
- to facilitate the development of greater collaboration between research institutions, a North/South Steering Group has been established to take forward an All-Island Mapping Study of Centres of Research and Technological Development;

- continued support to be provided for the US-Ireland Research Partnership with a view to developing this as a model of using cross-border collaborative arrangements to forge links with international centres of excellence leading to high quality outputs that give the island competitive advantage and international standing;
- the institutional framework for developing co-operation on an on-going basis be strengthened at all levels, Departments, agencies and advisory bodies; and
- establishing collaborative arrangements between the Advisory Council for Science Technology and Innovation (ACSTI) and the NI Science Industry Panel (NISIP).

In addition, a number of other possible initiatives have been identified during the course of this study. Whilst these remain at the conceptual stage they hold out the prospect of further co-operation with mutual benefit:

- Development of inter-institutional Graduate Schools on an all-island basis, which build on the Graduate Schools work currently underway in Ireland. There is a significant opportunity to establish all-island schools in strategic priority areas in both jurisdictions
- All-island brand and marketing strategy for university technology and services which would raise the profile and establish the position of the universities and the island as an Research and Development (R&D) powerhouse.

Background

Science, technology and innovation are at the heart of the Lisbon Agenda reflecting the view that the future competitiveness of the EU is critically dependent on its capacity to excel in these respects. In few parts of the EU does such urgency attach to making the knowledge economy a reality as in Ireland. North and South, given the loss of competitiveness in traditional industries and the low current spend on research and development compared to many competitor economies. Accordingly, any opportunity afforded by cross-border collaboration in this area should be eagerly grasped.

The role of Government in promoting Science, Technology and Innovation

As the private return on innovation is generally lower than the social return, R&D has many characteristics of a public good. Since firms also face difficulties in appropriating all the returns from their investment in R&D the market left to its own devices will under-invest in R&D. The market failure argument is further added to by consideration of different issues such as market and technological uncertainty and risk. There is thus a strong rationale for public support of R&D which is recognized throughout the EU in the supports offered by Member States for R&D and the manner in which the EU Commission treats those supports for State Aid purposes.

Scope for Collaboration in Science, Technology and Innovation

In both Northern Ireland and Ireland, science and innovation policy has moved towards the top of the industrial development agenda. This is reflected in closer integration of industrial development, technology and education policy in each jurisdiction as well as the increasing maturity of both jurisdictions' innovation support regimes. Institutional development and increasing commitments to supporting R&D and skills development in both the public and private sectors are also evident. This commonality in policy development creates the potential for coherence in policy development and action.

The benefits of collaboration in research and development are widely recognised and a common theme of policy in recent years in both jurisdictions has been to encourage universities and research institutes to develop collaborative relationships in this area. An extension of collaboration across the border as outlined in the initiatives detailed in the opening paragraph will enhance the value of such activity.

Centre for Science, Engineering and Technology – Calls for Proposals

Competitive schemes for funding have proven to be an effective instrument for driving the search for excellence in research and development. Extending such schemes so that they operate on an all-island basis will enhance the competitive element and extend the range of competences on which they can draw. Arrangements are being explored to ensure that businesses across the island can link to the research centre and benefit from the research. Issues such as funding and governance will be given detailed consideration. The Irish Government has already agreed, in principle, to open the next Call for Proposals for the establishment of a new Centre for Science, Engineering and Technology, on a pilot basis, to universities and research institutes across the island.

7th EU Framework Programme

Another area where cross-border collaboration makes eminent sense is the two Governments' approach to the 7th EU Framework Programme (FP7). This Programme requires collaborative cross-border interaction and presents a significant opportunity for the mutual enhancement of drawdown of EU funds. An all-island approach by the relevant agencies to promote FP7 and support the participation of companies will have significant leverage impact. This approach will focus on areas and instruments that present particular opportunities for the island of Ireland, including opportunities to exploit existing and future sectoral networks through the cooperative research instrument. Planning is taking place for a pilot initiative to promote and support increased engagement by SMEs in FP7 on a cross border basis. It is intended to open the scheme to companies from across the island collaborating with an industry partner from the opposite jurisdiction, with the aim of both participating in consortia at the European level.

Mapping Exercise

A North/South Steering Group has been established to take forward an All-Island Mapping Study of the research institutes on the island - RTD centres, Centres of Competence and Centres for Science Engineering and Technology (CSET), using an agreed definition. This will facilitate the development of greater collaboration between these institutions, including technology and knowledge transfer collaborations between the CSETs in Ireland and Northern Ireland based companies and between Invest NI's RTD Centres of Excellence and southern business collaborators. This will extend the range of scientific supports available to companies in both jurisdictions.

US – Ireland R&D Partnership

The full value of collaboration in research and development cannot be realised simply by the establishment of collaborative relationships between researchers on the island. The goal must be to connect the island's research communities to international research networks so as to forge working relationships with world leaders in particular areas of research that lead to high quality outputs that give the island competitive advantage and international standing.

However, a high level of collaboration on the island will help to offset the limitations of scale in both jurisdictions and provide a stronger base from which to develop those international contacts. An excellent example of the benefits of cross-border co-operation in forging international contacts is provided by the US-Ireland R&D Partnership. This Partnership represents a key initiative to increase the level of collaborative R&D amongst researchers and industry across the three jurisdictions that will generate innovations to the marketplace and lead to improvements in healthcare, disease prevention and other technologies. The goal is to promote three-way, transnational, collaborative peer-reviewed research projects that address the visionary and exciting research challenges in research areas internationally recognised to be of major significance for the 21st century.

These projects must be consistent with the overriding principles of the Partnership:

- Significant participation by researchers from the three jurisdictions in each research project supported;
- Competitive peer review; and
- Joint funding, with each jurisdiction supporting the research carried out in their own jurisdiction.

The relevant agencies have been actively stimulating research cooperation between the three jurisdictions in the agreed priority areas via joint workshops and making available financial support to allow three-way teams to prepare competitive proposals. This partnership would provide an excellent model for collaboration in other areas of research.

Further Collaboration

Finally, this study should be seen as part of a process to foster ever greater collaboration in this area and it is important to put in place the mechanisms to drive that process forward over time. To provide a degree of coherence on all-island policy co-operation, it has been agreed between DETI and DETE that the NI Science Industry Panel (NISIP) and the Advisory Council for Science Technology and Innovation (ACSTI) should take steps to develop a close working and collaborative relationship. This will include meetings involving key members of both bodies, supplemented by more regular interactions between the officials supporting their work programmes. This will be taken forward when the NISIP is in place. It has also been agreed that the Irish Government's Inter-Departmental Committee (IDC) on Science Technology and Innovation and the Northern Ireland administration's Inter-Departmental Working Group (IDWG) on Innovation, should be brought together to discuss synergies and develop possible areas of mutual collaboration. This too will be advanced following the development of the NISIP.

6 Trade, Tourism and Investment Promotion

A number of proposals to enhance co-operation in this area have been identified, including:

- the opening up of trade missions/ all-island trade missions, whether sponsored by Enterprise Ireland or Invest NI, to companies across the island;
- making the services of the overseas offices of Enterprise Ireland and Invest NI available to companies from across the island;
- further collaboration on tourism where it can positively affect the visitor experience in areas such as development of niche tourism, accommodation and events;
- enhanced collaboration between IDA and Invest NI in promoting the island for inward investment, with an initial focus on collaboration around the business operating environment so as to enhance the attractiveness of the island for Foreign Direct Investment and other areas with potential for mutually beneficial collaboration, such as research, identifying best practice and sharing market information, to be further explored; and
- more structured interactions between the agencies, by way for example of joint board meetings and regular meetings at executive level.

Background

Trade is the lifeblood of small economies. Enthusiastic engagement with the process of globalisation has been at the root of economic success in recent years. North and South, the two Governments can only grow wealth by continually seeking new markets for the products and services the island produces, exploiting opportunities for investment abroad so as to grow companies of international scale and persuading global companies, particularly those in leading edge technologies, to invest in the economy.

The role of Governments in promoting trade, tourism and investment

The legitimacy of Government intervention in this area is widely accepted. Companies, particularly SMEs, can face formidable barriers to entry to foreign markets, arising from differences in language, culture, regulatory and legal environments, which have to be overcome if they are to compete successfully with local competitors who do not face these obstacles. The purpose of the supports provided by Enterprise Ireland and Invest NI, mainly through their overseas offices, is to assist companies to scale these barriers. Public expenditure on marketing Ireland as a tourist destination is warranted as the large number of small operators who directly benefit from tourism revenue would be incapable of mounting a marketing effort that would achieve optimal results for the economy. Expenditure on attracting inward investment recognises the fact that there is, in effect, a market for globally mobile capital

in which public authorities (representing cities, regions or States) compete with each other for projects to secure the public benefits that accompany inward investment. Successful engagement in this market requires investment agencies to devise and develop “products” which attract the types of investment they are targeting and distinguish them from their competitors for those projects.

The benefits of collaboration in promoting trade, tourism and investment

The resources available to the agencies to support companies in foreign markets are quite small when compared with those of larger countries or, indeed, those of some competitor countries of similar size. Given the cost of maintaining overseas offices, a substantial enhancement of the provision in this regard is unlikely in the short to medium term. Furthermore, the extent to which companies North and South compete in export markets is minimal. In such circumstances, it makes eminent sense to pool the resources available to Enterprise Ireland and Invest NI by operating joint trade missions and by making the services of the agencies’ overseas offices available to all companies. Whilst Invest NI and Enterprise Ireland will also continue to arrange trade missions for their client companies these will be open to companies in the other jurisdiction.

Tourism Ireland Ltd. (TIL) provides a good example of a productive use of a joint marketing approach, whereby the attractiveness of Ireland as a destination has been enhanced. There have been important efficiencies gained as duplication is avoided and the island’s tourism assets exploited to maximum effect.

The international tourism marketplace is fiercely competitive and it is changing rapidly. Technological advances, growth in low-cost air travel, the emergence of new destinations in Eastern Europe and the opening up of the markets of India and China are all combining to change the tourism and travel scene. If tourism on the island is to survive and grow, it has to make itself heard, market itself well and deliver a quality visitor experience.

There is significant potential to increase co-operation, especially where it can positively affect the visitor experience. Research has identified real opportunities for the niche holiday market in the island of Ireland in such specialist interest areas as literature schools, art and cookery trips and language summer schools. Fáilte Ireland has recently agreed a new classification system for hotels and there is potential for the Northern Ireland Tourist Board (NITB) in following a similar route (although NITB must balance its approach between North/South and East/West – especially Scotland but these are not insurmountable hurdles). Harmonisation of standards in tourist accommodation classification will be explored which will assist TIL in marketing overseas and will also help to maximise the visitor’s experience. Fáilte Ireland and the NI Events company have already co-operated on a number of events. Areas of co-operation to secure future cross border events will be explored.

There may be other applications of the joint marketing of the island of Ireland approach that would add value to the marketing effort North and South. In export promotion,

for example, joint marketing may be appropriate in certain sectors, particularly where promotion focuses on the “Ireland” brand. In determining whether to undertake joint marketing of the island care should be taken to ensure that this approach would add value. Where those products are identical, at least in essential respects, joint marketing is likely to work well. However, where they differ in any significant respect, the benefit of joint marketing will need to be assessed on a case by case basis.

Turning to the joint marketing of the island for FDI, the “offerings” North and South differ in certain critical respects. The most obvious of these is taxation but there are also some differences in the regulatory environments that would be significant to potential investors (in relation, for example, to trade union recognition or the opt-out from EU working time limits). It is difficult to see how a marketing campaign based only on common elements of the offerings, as they currently exist, would be anything other than a lowest common denominator. However, this position should be kept under review as a likely, and intended, consequence of many of the initiatives identified in this study, is that the agencies’ offerings should become more closely aligned over time. Should this happen, particularly in more critical respects, a point should be reached where joint marketing would be the preferred approach.

There is also scope for a measure of collaboration between the agencies charged with attracting inward investment, IDA and Invest NI. In practice, they compete with each other on relatively few projects and, in any event, there will always be areas where even the most vigorous competitors will find collaboration mutually beneficial. Joint board meetings between IDA and Invest NI are already a feature (as they are between Enterprise Ireland and Invest NI) and there is increasing contact at executive level. Both agencies agree that the initial focus for collaboration should be around the business operating environment (e.g. Communication, Infrastructure, Skills, Legislative Policy, Business Environment, and Knowledge/Research) and working together to jointly influence and/or change the business environment in a manner that would increase the attractiveness of the whole island for Foreign Direct Investment (FDI). Any potential for joint promotional activity would be more likely to arise from the underlying reinforcement of consistent themes identified from this structural approach and where it is seen to serve the interests of both organisations.

The benefits of co-operation in developing the business environment for attracting FDI can be seen in particular in the North West of the island.

7 Labour Market and Skills

A number of significant proposals have been identified to enhance North/South collaboration in the area of skills and the labour market. These are as follows:

- An all-island approach to labour market skills forecasting - Recognising that a skilled workforce will be a key resource for a globally competitive all-island economy, the two Governments will identify skills gaps and propose how these should be addressed. The two skills expert groups that have already been established on both sides of the border will work together to ensure that the evidence is available to underpin policies that will deliver the necessary workforce skills across the island;
- Improve access to cross border job opportunities – Employment services North and South will continue to co-operate in order to exploit existing technology to improve information and access to job opportunities on an all-island basis. This has the potential to significantly increase worker mobility and enhance the functioning of an all-island labour market. In addition, having established close working relationships among respective Employment Services, local Department of Employment and Learning (DEL) and FÁS staff will regularly meet in order to share information and good practice;
- Joint overseas graduate placement schemes – A number of schemes exist on both sides of the border for graduates and

undergraduates to provide work experience and study opportunities beyond Ireland and the UK. It is proposed that these schemes be evaluated on a cross border basis to identify best practice and to ensure that resources can be clearly focused on those areas that capture best economic outcomes; and

- Co-operation on vocational education and training – There are potential synergies between the Institutes of Technology and Further Education Colleges in border areas. The two Governments will work together to maximise opportunities for co-operation in further education courses on a cross-border basis. FE Colleges, Institutes of Technology, FÁS and other providers will co-operate in assessing and meeting demand.

Background

Skills are at the heart of economic development. Studies demonstrate that improvements in human capital directly contribute to long term economic growth by enhancing labour productivity. In addition, skills interact positively with other key economic drivers such as innovation and investment. There is evidence that firms with more highly skilled workers are better placed to maximise the benefits of product and process innovation. In Ireland, North and South, there is also evidence that the availability of a skilled workforce has been instrumental in attracting and retaining high quality foreign direct investment.

The role of Governments in the labour market and skills enhancement

The rationale for Government intervention in the labour market and in skills enhancement is clear. There is, for example, evidence of strong positive “externalities” arising from education and training. In other words, people with lower skill levels are shown to benefit, in terms of enhanced productivity, from the spill over effects of working with those that have higher skills. On this basis, Government investment is justified so that sufficient education and training occurs to maximise the benefits to society

There is evidence too that private sector financial institutions are often reluctant to lend sufficiently to those that wish to undertake education and training. The costs that those institutions would incur to properly assess the risk of a loan would, in many cases, lead to prohibitive rates of interest being applied. This form of market failure provides a clear rationale for Government intervention which increasingly takes the form of learner support via subsidised loans or bursaries.

Data show that firms in Ireland do not invest as much in training as firms elsewhere in the EU. To some extent that is because firms, particularly the SMEs which characterise indigenous Irish industry, fear that staff will move on after training and take the benefit of the investment with them. This provides justification for state support for generic in-work training.

Finally, in an increasingly competitive global and fast changing economy there can be uncertainty with regards to the longer term benefits of taking additional education or training. This uncertainty can lead to a sub optimal level of private investment in skills. Government has a clear role to improve the quality and availability of labour market information. In Ireland, North and South, this is being driven by the work of the two skills expert groups.

The scope for collaboration in the labour market and skills enhancement

As the Governments North and South respond to these market failures there is clear potential for strong collaborative action to enhance the efficiency of the island’s labour market and ensure that sufficient and appropriate skills are in place to encourage sustained growth. A key objective is to optimise the utilisation of the skills pool on the island, particularly in high growth sectors such as ICT and financial services, and to address any obstacles, regulatory or otherwise, that might inhibit such optimal use of available skills. Undoubtedly there are also areas which are less suited to joint North/South approaches. For example, policy matters which are dealt with exclusively at the UK and Ireland levels are more likely to benefit from East/West than North/South collaboration.

When considering the scope for future collaboration it is worth considering the considerable North/South co-operation that already occurs in relation to skills and the labour market. For example FÁS and DEL have had a long history of co-operation on a wide range of issues and have, for some time, held formal joint management Board meetings. Further Education Colleges in Northern Ireland, particularly those located close to the border have been developing close working relationships with Institutes of Technology in the South. These are designed to disseminate best curriculum practice and facilitate discussion on shared areas of interest including Leadership and Management and human resource developments.

Considering again the market failures referred to above and in order to build effectively on the close North/South relationships that already exist, the area that is likely to derive most significant initial benefit from joint action is that relating to the enhancement of labour market information. Strong collaboration on that front will help Governments North and South understand better the extent to which the island’s two labour markets work cohesively together. It will assist the employment services and education and training providers on both sides of the border to collaborate on a well informed basis and help individuals make optimal career choices on the basis of robust all-island information. Collaboration on this front also provides the best footing to understand and act upon the benefits of joint approaches in other areas of Government intervention.

Conclusions

While substantial progress has been made in the two jurisdictions over the last twenty years in upgrading the human capital of the labour force, the changing nature of the global economy means that significant further investment is needed. The bulk of this investment will be undertaken independently in each jurisdiction. However, as set out above, there are areas where co-ordinated response in the future could produce enhanced results.

8 Enterprise and Business Development

A number of measures are proposed to develop co-operation in this area, including

- the holding of a Networks Conference in January 2007 to develop an all-island approach to business development through knowledge exchange;
- targeted number of existing Skillnets networks to be opened up on an all-island basis to ensure continual up-skilling of firms;
- a Cross-Border Entrepreneurship Initiative promoting entrepreneurship, business linkages and knowledge-sharing, involving Third Level colleges on both sides of the border;
- further development of and engagement in cross-border contacts at departmental and agency level with a view to bringing greater coherence to the policy agenda across the island for the purpose of mutual benefit and complementarity; and
- agency collaboration sharing expertise in improving sales and marketing skills of the business community, particularly management capability.

Background

Entrepreneurs and small and medium sized enterprises are the engine of economic and social development throughout Ireland.

Entrepreneurship has evolved significantly and is now recognised as an essential asset in the global economy - generating employment, growth and international competitiveness. Generally, if markets worked perfectly there would be no need or justification for state support.

However, there remain areas of market failure which justify public intervention. Over the last forty years both administrations in Ireland have provided a wide range of support for enterprise and business development. The changing structure of the economy and the changing needs of business require a constant reassessment of such support. There is also scope for increased North/South collaboration in this area.

The role of Governments in enterprise and business development

Public sector involvement in enterprise and business development has a particular focus on SMEs and targets areas of market failure which would constrain the emergence and growth of potentially profitable businesses in the absence of Government intervention. Some of these areas – regarding, for example, access to foreign markets or investment in R&D and human capital – have been dealt with in earlier chapters. However, additional difficulties face SMEs, for example, in securing the finance and capabilities necessary to survive the early challenges and transition to the scale necessary to compete in international markets. A wide range of supports have been developed to help companies overcome these difficulties dealing with such matters as

- Start-Ups and Entrepreneurship;
- Finance;
- Management Capability Development;
- Networks and Clusters; and
- Sales and Marketing - Export Performance.

The scope for collaboration on enterprise and business development

Enterprise Ireland and Invest NI offer a wide range of programmes providing largely parallel supports to SMEs on both sides of the border. There is a substantial level of collaborative activity currently taking place at company, agency and Departmental level to promote enterprise and business development. At an agency level there are well established formal and informal links in a range of areas including, for example, the development of collaborative networks/clusters, supply chain initiatives and in sharing best practice around issues such as benchmarking and management development. Particular cross-border issues are addressed by programmes devised and run by *InterTradelreland*.

At policy level, to facilitate inter-agency co-ordination on policy and programmes, the members of the Inter-Agency Planning Group in Ireland have joined with *InterTradelreland* and Invest NI to form the All Island Planning Managers' Group. The group meets regularly to take forward issues around the all-island competitiveness agenda. Northern Ireland's departmental and agency research co-ordination group has been expanded to include Forfás and *InterTradelreland* thus facilitating greater co-operation on economic research. One early product of this co-operation will be a joint study into the level of managerial skills in both parts of the island. This study will focus on the manufacturing sector and will complement research currently being undertaken by the London School of Economics for the UK and other international comparisons.

Two particular areas have been identified where further development of collaborative activity could pay dividends on both sides of the border – building business networks and stimulating entrepreneurship. The importance of networking activity, particularly in helping SMEs overcome the problems of scale, has frequently been emphasised in recent years, for example in the report of the Enterprise Strategy Group. Agencies on both sides of the border are working to stimulate the development of networks but the supports that have been developed apply only in each agency's own jurisdiction. This reinforces a classic "border effect" whereby the natural expansion of existing networks to incorporate companies with similar interests on the other side of the border is inhibited by the jurisdictional boundary. Research undertaken by *InterTradelreland* has confirmed that few cross-border networks exist. Addressing this problem will require careful consideration of a range of issues, including the funding of any cross-border measures and their integration with existing programmes North and South of the border. To develop an all-island approach to business development through knowledge exchange a Networks Conference is planned for January 2007. The Conference will help companies to learn about the benefits of existing networks; how networks can be part of a medium to long-term strategy for business; to have the opportunity to network with other key members in business networks and to influence policy in both jurisdictions.

During 2007 Skillnets in the South and *InterTradelreland* will identify, on a trial basis, 3-4 existing networks contracted to Skillnets that could be opened up to Northern Ireland companies. Participating Northern Ireland companies will benefit from the networks infrastructure that is already in place and from the expertise, experience and support from Skillnets. The purpose of this trial is to establish the interest in, and the viability of, such enlarged networks. Outcomes will also inform consideration of the need for wider intervention in this area in the future and provide insights as to the economic and commercial activities that most lend themselves to wider networking as well as to the administrative and financial arrangements to apply in the event of developments in this context.

One of the more notable features of the business environment in Ireland over the past decade or so has been the growth in entrepreneurial activity. The Global Entrepreneurship Monitor (GEM) reports of recent years indicate that Ireland now has one of the highest levels of entrepreneurial activity in the EU, but research indicates a lower level of entrepreneurship in Northern Ireland and both parts of Ireland still lag behind world leaders in this respect. The agencies on both sides of the border attach a high priority to stimulating greater entrepreneurial activity and recognise that a collaborative approach will add value to their efforts in this area. A Cross-Border Entrepreneurship Initiative promoting entrepreneurship, business linkages and

knowledge-sharing, involving Third Level colleges on both sides of the border, will be implemented, focussing initially, on a pilot basis, on the North West and East cross-border regions of the island. This initiative will target 40 placements per year on a full-time basis. The participants will benefit from a comprehensive, structured suite of start-up training from experienced and qualified trainers and mentors.

9 Regulatory Environment and Fiscal Measures

Both North and South recognise the role of taxation and regulation in enhancing economic competitiveness.

Fiscal Instruments

Taxation is an important factor in economic competitiveness. Achieving the right balance between competitive taxes and the adequate provision of public goods is a challenge faced by both Governments.

The fiscal system, broadly defined, has developed on a totally independent basis in the two jurisdictions. This is not at all surprising as the United Kingdom and Ireland have very different needs and preferences in terms of public goods. In many cases these differences in approach pose no real problem for business activity in either jurisdiction. However, there are some cases where differences in approach do affect the location of business. While these differences in approach may not always be reconcilable there may be some cases where a more co-ordinated approach could produce an enhanced environment for economic activity without any long-term cost to the interests of either Government.

An important example where joint action is already taking place is the area of emissions trading and its implications for the electricity sector and electricity consumers in the impending all-island market. The approaches already being taken by the UK and Ireland in their National Allocation Plans have been broadly consistent. In addition, the regulatory authorities are considering how the differences which do exist may be properly reconciled and how the best of interests of consumers can be addressed in the context of the all-island market.

There are a range of other areas where research into enhanced co-operation might show fruit.

There is currently a debate in Northern Ireland about the potential for fiscal measures, such as a reduction in the rate of corporation tax in NI and R&D tax credits to stimulate economic growth. For example, business organisations, such as the Confederation of British Industries (CBI) Northern Ireland and the Industrial Task Force, have argued that reducing corporation tax would stimulate economic growth in Northern Ireland. The Economic Research Institute of Northern Ireland is preparing research on the potential benefits to the NI economy of reducing corporation tax and the Assembly's Preparation for Government Committee has recently made a number of recommendations in relation to fiscal measures, amongst which it accords top priority to a reduction in corporation tax.

Whilst indicating that “an effective financial incentive must ... form the basis of a policy of economic renewal [and] is a necessary component of economic success” the Committee concluded that it is unlikely to be sufficient on its own and that support policies also have an important role to play.

It is argued that lowering Northern Ireland’s headline corporation tax rate would generate an in-flow of foreign direct investment, stimulate growth of indigenous enterprises, have a positive spill-over effect, and help to redress the balance between NI’s private and public sectors, while being tax efficient.

Following on from recent political developments, further discussions on economic measures are planned at Government level. Given that any decision to introduce further fiscal initiatives in NI is a reserved matter, it now falls to the UK Government to consider the next steps.

Regulation

A well-designed and efficiently enforced regulatory system can improve the functioning of markets and achieve environmental and social policy goals while maintaining competitiveness. In both the UK and Ireland the Governments have committed themselves to an ongoing process of regulatory reform. This process of reform aims to reduce the unnecessary burdens on citizens and business arising from the essential regulatory role of Government. However, while regulatory reform in each jurisdiction will make a difference to the competitiveness of business and the lives of individual citizens, there is no guarantee that the independent reforms in each jurisdiction will necessarily reduce the burdens on those working or doing business in the two jurisdictions.

For example, while the provisions of the double taxation treaties theoretically provide a consistent tax treatment of earnings arising in the two jurisdictions, achieving such consistency in practice may impose very significant regulatory burdens on individual taxpayers or companies.

Differences in regulation between North and South can hold back all-island business development by imposing additional transaction costs on firms wishing to expand across the border. The impact of regulatory differences on business development is particularly visible in border areas, which firms are likely to avoid, resulting in unbalanced regional development.

Differences exist North and South in areas such as environmental regulation, labour regulation and the financial sector. While these differences and the increased transaction costs associated with them, have not prevented the development of all-island businesses, they have in some cases added to their regulatory burden. In many cases these differences in regulatory environment are a necessary result of the different systems of public administration in the two jurisdictions. However, there may well be areas where a more co-ordinated approach by the two Governments could reduce the regulatory burden without prejudicing the necessary provision of public services. A good example where major work is under way is the design of a consistent regulatory environment in the two jurisdictions to underpin the new all-island electricity market.

There is a strong case for the two Governments to continue to work together to address these differences in the regulatory environment and to consider how the regulatory burdens on companies or individuals of doing business in the two jurisdictions can be reduced in order to move towards a truly all-island economy.

10 The North West

Both Northern Ireland and Ireland share the challenge of promoting balanced regional development to stimulate economic growth throughout the island and bridge the prosperity gap between some of its regions.

The two Governments recognise that they share a particular challenge in the North West of the island, particularly the area encompassed by the four local council areas of Derry, Strabane, Limavady and Donegal. The border effects, described earlier in this report, are particularly visible in this region.

Both sides of the border in the North West share common problems:

- Relative peripherality;
- A lack of joined up action;
- Failure to capture synergies between the city of Derry and its natural hinterland, including Donegal;
- An infrastructure deficit;
- High levels of economic inactivity and unemployment (in some cases intergenerational);
- A relatively low level of educational attainment (partly exacerbated by a "brain drain" and leading to a vicious circle); and
- The legacy of economic and social problems from the Troubles.

The existence of common problems provides an opportunity for the two Governments to collaborate closely in developing and delivering joint solutions leading to benefits which otherwise would not accrue under individual Government action.

A greater degree of cross-border co-operation in the North West also has the potential to be a model for more co-operation in other border areas.

Both Governments recognise the case for co-operating in the development of the Derry-Letterkenny Gateway. The NI Regional Development Strategy sees a cross-border role for Derry as a regional city and hub for the North West, while the South's National Spatial Strategy identifies Letterkenny as a Gateway with cross border significance.

As both Governments make significant investment to address the infrastructure deficit in the region, they can work together to ensure more efficient planning, better value for money and better outcomes.

The upgrading of the road network is essential to the future prosperity and competitiveness of the region. Taking a more strategic, regional approach to future needs assessment and consideration of upgrades can result in more efficient planning and return on investments, North and South.

There are potential cross-border solutions to the deficit in energy infrastructure in parts of the region.

The benefits of providing telecoms links on a cross-border basis have already been seen. There is now potential for efficiency gains for the two Governments by taking a regional approach to the promotion of take-up and stimulation of demand for broadband services.

There is also an opportunity to work together to develop efficient, integrated waste and water systems in the region that can underpin environmentally sustainable economic development.

The two Governments' investment in the City of Derry Airport illustrates the potential for joint investments in key infrastructure projects to deliver benefits to the entire region.

The existence of the border has clearly impacted on business development in the region. Co-operation between North and South in developing cross-border business networks and clusters has the potential to enhance knowledge transfer and business links, essential in stimulating business growth in the region. The two Governments can also more efficiently promote start-ups and encourage entrepreneurship through joint initiatives.

There is a particular opportunity to work together to market the North West region for international investment. By looking strategically at the region's business operating environment, the two Governments can more effectively target their efforts to attract FDI.

There is a good opportunity to work together to develop key components of the region's FDI offering, i.e. infrastructure, skills, communications, R&D.

The region also presents a natural market for the provision of health and educational services and for the more efficient use of the health and education infrastructure in the region, notably the Letterkenny and Altnagelvin hospitals. The availability of radiotherapy services in Belfast to patients from Donegal is a model for greater co-operation for the provision of other health services. There is also further scope to enhance cross-border GP services. Both Governments are aware that the NUI Galway and University of Ulster are collaborating to develop proposals for an Ulster - Connacht Medical School. It is understood that this proposal is being developed having regard to policy development in this area in each jurisdiction.

Improving skills and education levels to develop a knowledge economy in the region is a challenge faced by both Governments. By taking a strategic, joined up approach to identifying the future skills needs of the region, the two Governments can deliver a more efficient response, involving the key public and private sector providers in the region.

Recognising the significant potential that exists for co-operation, the two Governments launched the North West Gateway Initiative in May 2006 to include:

- a non-statutory integrated spatial planning and development framework using the Derry-Letterkenny gateway as a basis, but taking account of the entire region as encompassed by the four local council areas of Derry, Strabane, Limavady and Donegal;
- an examination of the potential for joint investment in key infrastructure projects;
- joint analysis and actions by agencies in areas such as trade and investment promotion, tourism, skills/training, further and higher education, innovation and business development; and
- better co-ordination of public services, notably in health, education and information services.

In drawing up programmes under the new round of EU structural funds the two Governments are giving due consideration to the particular needs of the North West.

11 Conclusion

This report sets out a clear and strong economic rationale for all-island economic co-operation.

It has illustrated that there are benefits to be gained from economic co-operation. This rationale applies equally to the planning and delivery of public services and infrastructure such as in health and education. Greater co-operation in the health and educational areas can result in more efficient use of new facilities, better value for money, more balanced regional development and improved access to services and facilities throughout the island. It is recommended that both Governments should explore and scope out opportunities for further all-island co-operation in both these sectors.

This study has highlighted clear high level goals to work towards and the first steps towards immediate implementation of these are being progressed with a range of initiatives in the key areas.

The two Governments, along with key stakeholders, will now jointly develop a more detailed programme of work in each of the areas, including implementation plans setting out timelines and responsibilities for delivery.

The two Governments look forward to this work forming an important part of the agenda of the restored institutions.

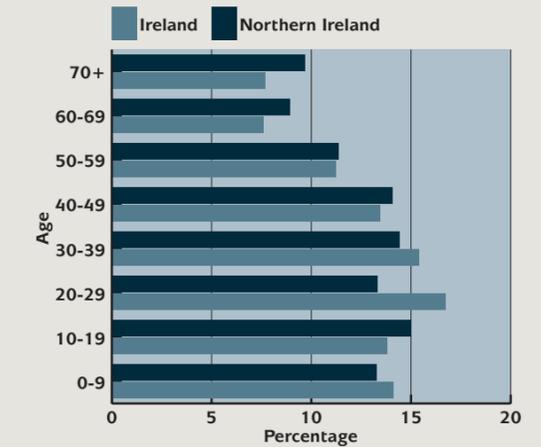
Appendix A: Comparison of the two economies

As discussed above, the different economic history of Ireland and Northern Ireland has legacy effects in terms of the structure of the population and of the economies themselves. This Section concentrates on comparing the key features of the two economies that may be relevant in formulating a co-ordinated approach to promoting future growth in output and welfare on the island of Ireland.

Ireland has a much smaller share of its population aged over 60 than is the case for Northern Ireland (See Figure 1). This is due to the much higher levels of emigration experienced in the period from 1930 through to the 1950s. The people who left never returned and it is this missing cohort that makes the difference in terms of old-age dependency.

In the 1970s the birth rate in Ireland was substantially higher than in Northern Ireland (see Figure 2). However, since 1980 it declined very rapidly in Ireland. The decline occurred earlier in Northern Ireland and was less precipitate. Between the mid-1980s and the mid-1990s the birth rate in Ireland was below that of Northern Ireland. The different pattern of change owed more to differences in the numbers in the child-bearing age groups in the two jurisdictions than to differences in fertility behaviour.

Figure 1: Structure of the population, Cohort % of Total population



The result of this difference in past behaviour is that Ireland has a very much higher share of its population in their 20s than is the case in Northern Ireland. It also has a somewhat larger share of its population in their 30s. This has economic implications as the trend rise in educational attainment means that the younger age groups tend to be better educated than their parents' generation. This is reflected in later comparisons of human capital in the two economies. The cohort in their twenties and thirties also tend to be more flexible, continuing in education later and being more open to switching employment to the more attractive growing sectors. This enhances the supply of skilled labour in Ireland.

As a result of the higher birth rate in the period 1985 to 1995 Northern Ireland has a larger share of teenagers in the population. This may present a burden in the short-term because of the need to provide educational services. However, it is also a long-term economic opportunity as it is much easier to enhance the human capital of this group through investment in education today than is the case for those who have already graduated from the educational system.

Figure 2: The Birth rate



The Total Period Fertility Rate (TPFR) for 2003 was slightly higher in Ireland than in Northern Ireland at 1.95 compared to 1.87. This represents a statistical measure of the number of children that are likely to be born to a woman over her lifetime. At this level neither

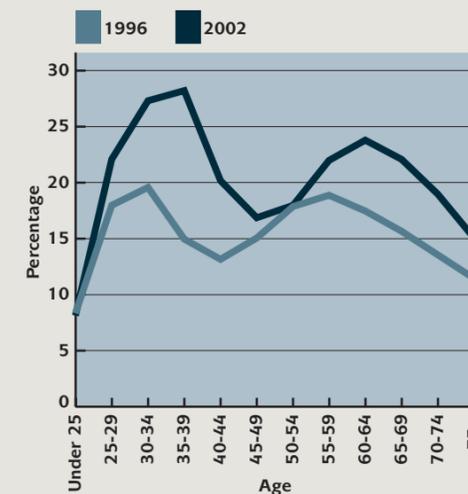
the population in the North or in the South is quite reproducing itself. However, when contrasted with the current TPFR for the rest of the EU, these are seen to be high rates compared to the island's neighbours including the rest of the UK. It is closer to the current experience of the United States.

Figure 3: Immigration



A major factor affecting the change in the population over time, and hence the change in the labour force, is net migration. For Northern Ireland there was some limited net emigration in the 1980s (Figure 3). However, over the past decade there has been relatively little net flow. Ireland has seen a much greater turnaround with very high rates of emigration in the late 1980s and an increasing rate of net immigration since the mid-1990s.

Figure 4: Ireland Population who have lived abroad of the cohort



Even with the dramatically improved economic circumstances a very large share of each cohort of young people still leaves Ireland each year to seek employment abroad. Research in Fahey, Fitz Gerald and Maitre, 1997 and Barrett and Trace, 2000, has shown that the emigrants from Ireland tend to be among the best educated of their cohort. However, in contrast to earlier generations, the bulk of these emigrants are "homing pigeons" returning to Ireland after a period abroad. Figure 4 shows how for the generation in their 30s at the time of the last census (2002) around a quarter of them had experienced life abroad. Barrett and O'Connell, 2002, have shown that as a result of their experience abroad the returned emigrants' productivity and earnings are enhanced by around 10 per cent.

Because the emigrants from the South are among the best educated of their generation it is very important that they do return and that the potential "brain drain" in fact turns out to be a way of enhancing the human capital of the future labour force. The factors underlying the decisions to return and the timing of those decisions are not at present well understood.

In the case of Northern Ireland there is also a major outflow of young people, in particular those going to study in third level institutions in Britain. This outflow may be disproportionately from the Protestant community. It would appear that many of them never return. This outflow represents a very serious loss of potential human capital for the economy over the coming generation.

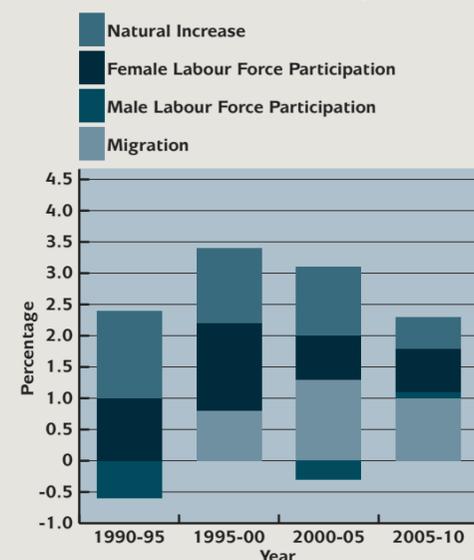
Table 1: Female Labour Force Participation Rates 2003

Female Labour Force Participation Rate, 2003		
Age	Ireland	Northern Ireland
15-19	26.0	46.0
20-24	70.4	80.2
25-34	84.0	81.5
35-44	79.5	78.7
45-54	72.4	77.6
55-59	58.5	62.1
60-64	40.1	37.2
65+	8.0	6.5
Total	59.5	61.0

A key factor in the rapid growth of the Irish economy in the late 1990s was the very rapid rise in the skilled labour force. As shown in Figure 5, in the period 1995-2000 around 1.5 percentage points a year of the growth in the labour force was attributable to the rising participation of women in the labour force. This factor continues to be important today. As women had traditionally been better educated than men this rise in female labour force participation was particularly important for the supply of skilled labour.

In Northern Ireland female labour force participation had traditionally been higher than in Ireland. However, today, it is higher for women under 25 and women over 45. In the case of the younger cohorts the high participation rate reflects the significantly lower participation rate in education. This issue and its potential negative implications are discussed later. For the 45-59 cohort the higher participation rate in Northern Ireland reflects a cohort effect – that group of women always had a higher participation rate than in Ireland and they have tended to remain in the labour force as they have aged.

Figure 5: Decomposition of Factors Underlying Growth in Labour Force, % per year



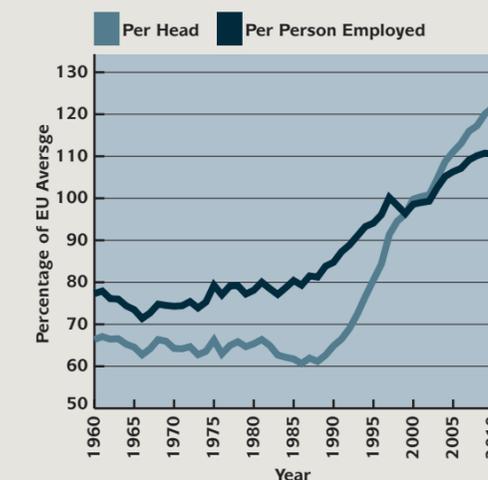
In making international comparisons of living standards the most usual measure is GDP per head. However, this is an inappropriate measure for Ireland because of the extent of the profits of foreign multinationals account. These profits are not available to Irish citizens and are more appropriately excluded in such comparisons by concentrating on GNP per head. For most other countries, such as the UK, there is little difference between the two measures and, as a result, here GNP per head figures for Ireland are compared directly with GDP per head figures for the UK (Table 2).

Table 2: GDP per capita in PPS, 2004 - per capita in Purchasing Power Standards (PPS), (EU-25=100)

Country	Measure	Value
Ireland	GDP	135.8
	GNP	113.8
UK	GDP	117.1
Northern Ireland	GDP	93.9

By 2004 GNP per head in Ireland was slightly less than GDP per head in the UK, though very much closer than it was a decade ago. Both were well above the average for the EU 25. Having had a GNP per head less than 60 per cent of the average for the EU 15 in 1990, Ireland showed dramatic progress over the 1990s so that Irish GNP equalled that of the EU 15 around 2000 (Figure 6). A substantial part of this progress was due to the rapid fall in the dependency rate. However, there was also a very rapid increase in productivity as shown by the growth in GNP per person employed. Northern Ireland has achieved a degree of convergence in living standards with the rest of the UK over the past 15 years. In 1989, GVA per head in Northern Ireland was 74.8 per cent of the UK average; by 2004 it had risen to 80.2 per cent.

Figure 6: GNP relative to the EU average



The Northern Ireland economy also receives substantial fiscal transfers from the rest of the UK. Northern Ireland, (along with Scotland and Wales) receives proportionate shares (based on population) of changes to comparable spending programmes in England. This arrangement, known as the Barnett formula, has been in place in the UK since 1978. The present levels of public expenditure available for allocation by the Secretary of State, or a devolved administration, (known as the DEL – departmental expenditure limit) reflect, in the main, the relative differences in public expenditure levels between England, Scotland, Wales and Northern Ireland that were in place when the formula was introduced, and the marginal adjustments to comparable spending programmes in England that have taken place since then.

However there is also a significant proportion of total public expenditure in Northern Ireland (c 45%) that falls outside of the Barnett arrangements and is instead determined on the basis of national spending programmes. A major component of this consists of social security and benefits payments where the level of expenditure is determined by entitlement to benefit levels determined on a UK wide basis.

The net effect of these arrangements has been to maintain total public expenditure in Northern Ireland at levels that are much higher than the UK averages, or the averages for Scotland and Wales. Data for 2005-06 highlights that public expenditure per head in Northern Ireland is 30 per cent higher than the UK average; while Scotland is 18 per cent higher and Wales 10% higher. It is also important to note that levels of public expenditure in Northern Ireland, and in the other regions of the UK, are unrelated to the share of national tax revenues collected in any particular region of the UK. Instead under the UK's fiscal systems tax revenues are collected and aggregated centrally, with public expenditure allocations determined under the separate arrangements outlined above.

Table 3: Labour productivity per person employed, 2004 - in PPS per person employed relative to EU-25 (EU-25=100)

Ireland	GDP	128.0
	GNP	107.3
UK	GDP	107.0
Northern Ireland	GDP	92.0

Table 3 shows a comparison of productivity measured in terms of GNP per person employed for Ireland and GDP per person employed in the UK. This suggests that productivity, so measured was almost identical in the two countries and significantly above the EU average. The Northern Ireland level of 92 per cent is based upon GVA per filled job. In 2004 GVA per filled job was 85.8 per cent of the UK average. Just as GVA per head in Northern Ireland has been slowly converging with the rest of the UK, labour productivity as measured by GVA per filled job has declined, reflecting relatively faster employment than output growth.

Table 4: Persons in employment by industry, Spring 2003

% of Total Employment	% of Total Employment	
	Ireland	Northern Ireland
Agriculture, forestry,	6.4	3.5
Other production	17.0	14.4
Construction	10.7	11.8
Wholesale and	14.1	15.0
Hotels and restaurants	6.5	4.6
Transport, storage	6.2	4.7
Financial and other business	12.8	7.4
Public administration	5.1	17.0
Education and Health	15.9	17.4
Other services	5.4	3.8

Source: CSO: Ireland, North and South: A Statistical Profile

Table 4 compares employment by sector in Northern Ireland and the South. This shows Ireland having a substantially greater share of the population employed in manufacturing, hotels and restaurants, and financial and other business services. These three sectors cover the bulk of the tradable goods and services sector.

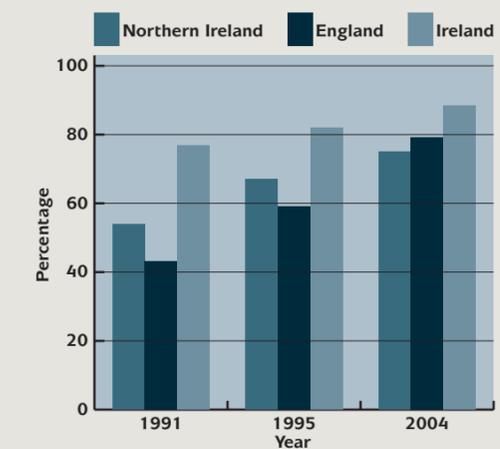
²The total difference between the share of employment covered by these three sectors is over ten percentage points. The counterpart to this difference is a gap of almost twelve percentage points between the 5.1 per cent of the population employed in public administration in Ireland and the 17 per cent in Northern Ireland, dramatically higher than in most other EU economies.

This difference in employment shares also reflects differences in economic activity. In the case of Northern Ireland the exceptional share of employment accounted for by the public sector and the exceptionally low share accounted for by the tradable sector is substantially a legacy of the thirty years of civil unrest.

Obviously a key task for Government in Northern Ireland over the coming decade will be to raise the level of activity in the tradable sector. Such a reversal would reduce the gap between measures of output and income in Northern Ireland, reducing the dependence of the economy on transfers from central Government.

In considering the challenges facing the two economies over the coming decade in Section 2 the role of human capital was identified as being of considerable importance. Figure 7 shows the participation rate in education for 17 year olds. These data indicate that the South has consistently had somewhat higher participation rates than for the North or the UK as a whole. While Northern Ireland had a significantly higher participation rate than England in 1991, this advantage has been slowly eroded so that today the performance of England is somewhat better than that of the North.

Figure 7: Participation in Education, 17 year olds



While the participation rates for 17 years olds have shown some convergence there is still a very big gap for 18 year olds between the performance of the UK and that of the EU generally, including Ireland (Table 6). This suggests that there is a significant gap to be made up in the crucial third level sector.

² The extent to which different sectors are tradable varies considerably. Much of the output of the hotels and restaurants sector is sold domestically whereas a significant part of the transport sector is sold abroad. The classification here is not intended to be definitive.

Table 5: Educational Participation by 18 year olds, 2004, %

EU 25	78.1
EU 15	76.3
Ireland	83.4
UK	60.5

Source: Eurostat

The legacy effects of past participation rates for third level education are illustrated in Table 6 which shows the proportion of the 25 to 34 year old cohort that have completed third level education in Ireland, the UK and the EU 25. This suggests that the UK has had a higher than average participation rate in third level education in the past than was the case for the EU average. However, for Ireland the proportion of the cohort with third level education is even higher, with a particularly high level of attainment for women. For Northern Ireland the relatively low proportion of males with third level education in this cohort may reflect differential outmigration.

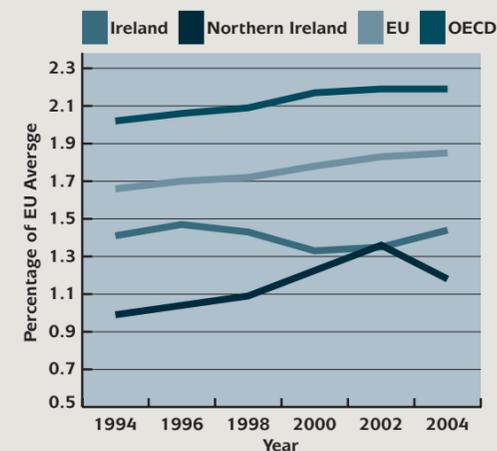
Table 6: Persons aged 25-34 with 3rd level education by sex, 2005% of Population aged 25-34

Country	Persons	Males	Females
Ireland	39.2	34.9	43.7
United Kingdom	34.7	33.6	35.8
Northern Ireland	35.5	28.0	42.6
EU 25	28.5	25.9	31.2

Source: CSO: Measuring Ireland's Progress, NI Labour Force Survey

However, because of differences in the age at which children start education these data must be viewed with caution.

Figure 8: Total R&D Spending in Ireland, Northern Ireland, OECD and EU25 (% of GDP/GNP)



Notes and Sources: Ireland, OECD and EU25: Research and Development in Ireland 2005 – At A Glance, Forfás. Northern Ireland, DETI R&D reports. GNP is used for Ireland instead of GDP as the latter is inflated by the transfer pricing policies of large multinationals.

Another factor which recent studies have suggested contributes to long-term competitiveness is R&D spending, however, overall levels of R&D investment remain relatively low by international standards in both Ireland and Northern Ireland. GERD, the aggregate of R&D in the business sector, Higher Education Institutions (HEIs) and Government, has remained relatively constant in Ireland since the early 1990s (Figure 8) ranging from 1.4 per cent of GNP in 1994 to a high of 1.47 per cent in 1996.

Despite increases in GERD over the 1990s, Ireland (and Northern Ireland with GERD of 1.18 per cent of GDP in 2004) have consistently lagged behind both EU and OECD average.

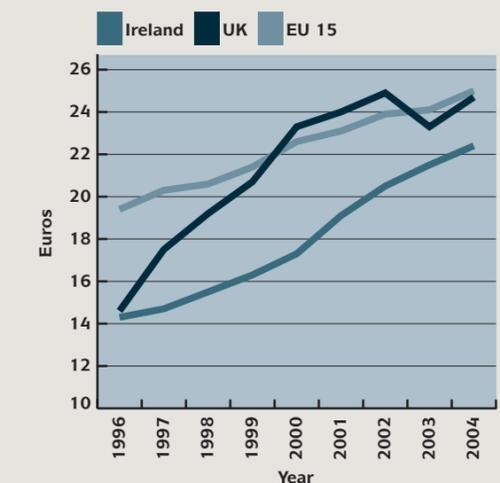
A key factor driving change in the two economies is their competitiveness. This concept is difficult to measure as the relevant comparators will vary depending on the firm and the sector involves. However, a crude but important measure is labour cost per hour where labour costs include all work related taxes and insurance contributions paid by employers. Table 8 shows comparative figures for Ireland, Northern Ireland, the UK and the wider EU. The latest available harmonised data are for 2000. In that year UK costs were just above those of the EU 15 while Northern Ireland labour costs were just below the EU average. In the case of Ireland labour costs in 2000 were significantly below the EU average in 2000.

Table 7: Comparative Labour Costs, 2000, Euros per hour

	2000
EU 25	18.48
EU 15	22.27
Ireland	17.34
UK	23.5
Northern Ireland	22.04

Source: Eurostat Labour Costs Survey, 2000

Figure 9: Comparative Labour Costs over time



However, since 2000 labour costs have risen more rapidly in Ireland as a result of upward pressure on wage rates. Figure 9 uses the data in Table 5 as a benchmark and links them to the annual labour cost data available from Eurostat. These data in Figure 9 suggest that when exchange rates and taxes are taken into account the gap between Irish labour costs and those of the UK and of the wider EU 15 has narrowed significantly over the period 2000 to 2004. In the case of the UK there has not been much change relative to the EU 15 when exchange rate changes are taken into account.

Another important factor affecting competitiveness is the relative burden of taxation. Table 8 shows a comparison of the average direct tax take from income for Ireland, the UK and the wider EU. Over the decade 1995 to 2004 the UK consistently had the lowest tax rate. While Ireland was significantly higher than the UK in 1995 the gap had narrowed significantly by 2004. The substantial gap between the UK and the wider EU has remained fairly constant over the last decade.

Table 8: Tax and social insurance as a percentage of income

Year	EU 25	EU 15	Eurozone	Ireland	UK
95	36.9	36.9	38.2	29.7	25.7
96	37.4	37.4	38.9	29.3	24.9
97	37.4	37.4	39.5	29.4	24.4
98	37.5	37.5	39.5	28.5	25.2
99	37.2	37.2	39.2	28.5	25
00	37.1	37.1	39.3	28.2	25.4
01	36.6	36.7	38.8	27.4	25.1
02	36.3	36.3	38.7	25.9	24
03	36.6	36.6	38.8	25	24.3
04	36.5	36.5	38.7	26.3	24.8

Source: Eurostat

This comparison of the circumstances of the two economies on the island of Ireland suggests that both economies face fairly favourable demographics. However, Northern Ireland faces substantial challenges in the field of education and this may partly account for the lower level of productivity observed. It also faces a major challenge in redirecting activity from the public sector to the tradable sector. This would be difficult to accomplish if reliance were placed solely on cost competitiveness, in particular labour cost competitiveness, given the relative similarity in costs to those in neighbouring jurisdictions. Part of the solution can be expected to lie in supply side measures aimed at raising productivity, including measures to improve human capital.

An important channel in improving human capital would be measures which stemmed or reversed the brain drain from Northern Ireland. In the case of the South the tightness of the labour market, especially the market for skilled labour, has been ameliorated through the return of skilled emigrants and also through skilled immigration, predominantly from within the EU.

Another feature of any solution will probably lie in redirecting the focus of both economies towards sectors and areas of activity which make use of skilled capital and the fruits of R&D. Policies to enhance the broader "knowledge capital" of the two economies may be important in building their long-term competitiveness.

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For more information, please contact:

Communications Department

Telephone: +44 (0) 28 3083 4100

Textphone: +44 (0) 28 3083 4169

Email: equality@intertradeireland.com