# Economics in Peacemaking: Lessons from Northern Ireland

The Portland Trust
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The Portland Trust is a not-for-profit British foundation committed to encouraging peace and stability between Palestinians and Israelis through economic development. It promotes initiatives which are designed to support the development of the private sector, particularly in the Palestinian Territories.

Britain is uniquely placed to play a positive role in the region by virtue of its historical ties, its membership of the EU and its special relationship with the USA.

The Portland Trust supports this role.

Chart - I Unemployment in Northern Ireland rose steadily from the beginning of the Troubles until the mid-1980s. The rise was particularly sharp after the 1973 and the 1979 oil crises. Growing unemployment reflected a long-term decline in the manufacturing sector. This decline gathered pace in the early 1970s and continued to accelerate during the 1980s, a period of turbulent economic reform in the UK.

**Data source:** Oxford Economics, Ltd.

Chart - II Violence was limited in the first few years of the Troubles while the conflict's character shifted from civil rights struggle to sectarian strife. Beginning in 1971, violence exploded as a cycle of retaliation between well-armed and organised groups set in. Improved policing led to a decline in violence in the latter part of the 1970s, when violence became less of a mass phenomenon and instead became more of a calculated political or terrorist tactic.

**Data source:** Sutton, An Index of Deaths from the Conflict in Northern Ireland (1994), as updated at the Conflict Archive on the Internet (CAIN). See http://cain.ulst.ac.uk/sutton/

Chart - III The proportion of employment in the public sector rose dramatically as overall employment fell and violence rose. The growth of the public sector helped mitigate the decline of the manufacturing sector and was underwritten by the subvention.

**Data source:** Oxford Economics, Ltd.

Chart - IV The subvention is the difference between public revenues and public expenditures in Northern Ireland. It rose along with violence and unemployment in the 1970s but levelled off in the 1980s as UK government spending was curbed across the board. It began to rise again in the early 1990s as the peace process gathered momentum. Today the subvention to Northern Ireland is approximately £6 billion, or about £3,500 per capita.

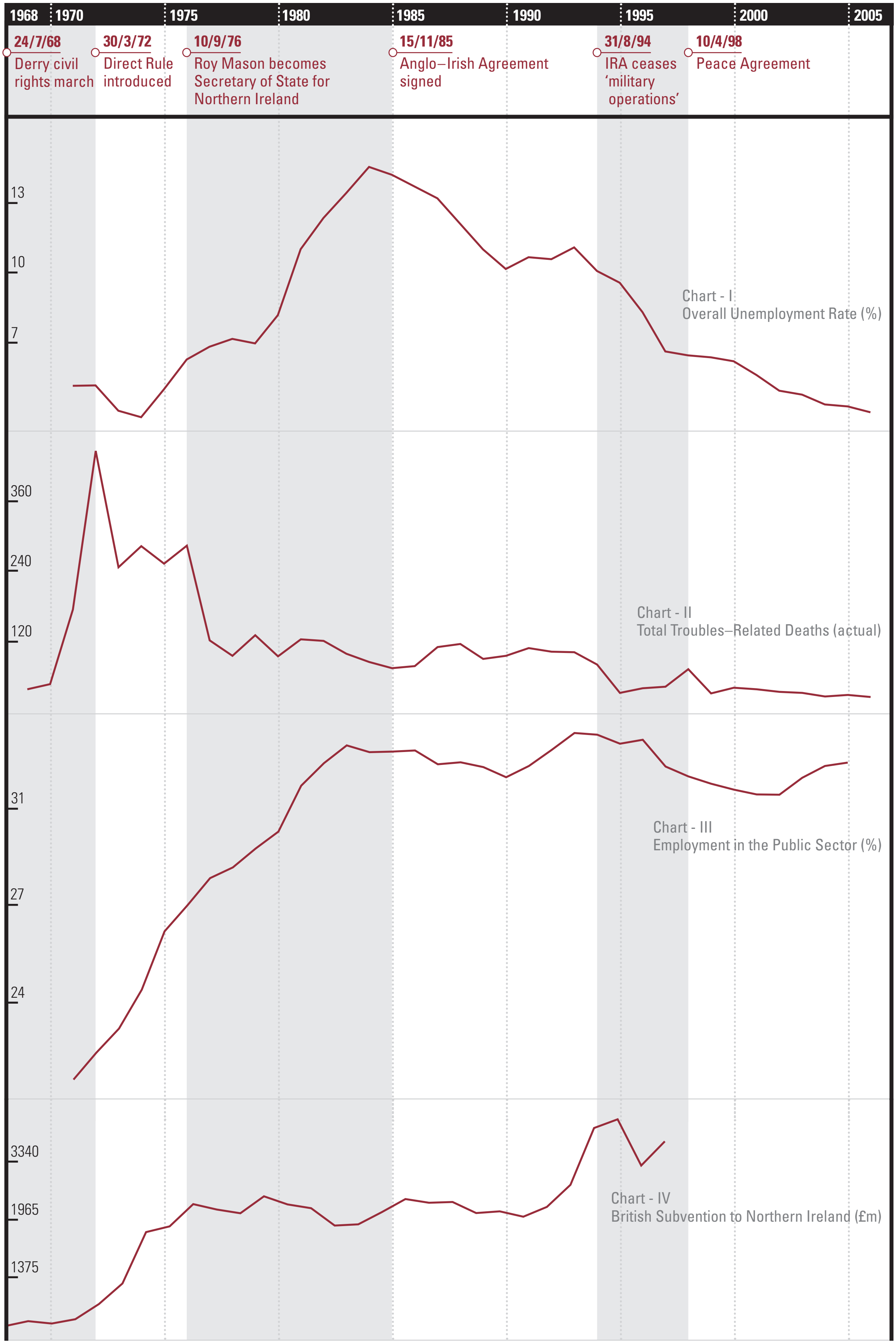
**Data source:** McGarry and O'Leary, Explaining Northern Ireland: Broken Images (1995).

Chart - V Foreign direct investment (FDI), particularly from the US, played a key role in reviving the economy of Northern Ireland. FDI is sensitive to the political climate. In Northern Ireland, it went up when the prospects for peace looked good, as after the 1994 ceasefires, but fell when violence threatened to return, as after the IRA bombings in 1996.

**Data source:** Invest Northern Ireland (INI).

Chart - VI House prices are taken to be an indicator of economic confidence, although they can often lag more direct indicators like surveys of consumers or businesses. Here we use the ratio of house prices in Northern Ireland to those in the North of England, an economically comparable region, to isolate trends specific to the former. House prices in Northern Ireland fell in the wake of the violence and the manufacturing decline of the 1970s but began to rise again in the early 1990s when the peace process gathered momentum and the growth of manufacturing in Northern Ireland started to outpace growth of this sector in the rest of the UK.

**Data source:** Nationwide.



1968
1970
1975
1980
1985
1990
1995
2000
2005
24/7/68
Derry civil rights march
30/3/72
Direct Rule introduced
10/9/76
Roy Mason becomes Secretary of State for Northern Ireland
15/11/85
Anglo–Irish Agreement signed
31/8/94
IRA ceases 'military operations'
10/4/98
Peace Agreement
13
10
7
Chart - I
Overall Unemployment Rate (%)
360
240
120
Chart - II
Total Troubles–Related Deaths (actual)
31
27
24
Chart - III
Employment in the Public Sector (%)
3340
1965
1375
Chart - IV
British Subvention to Northern Ireland (£m)

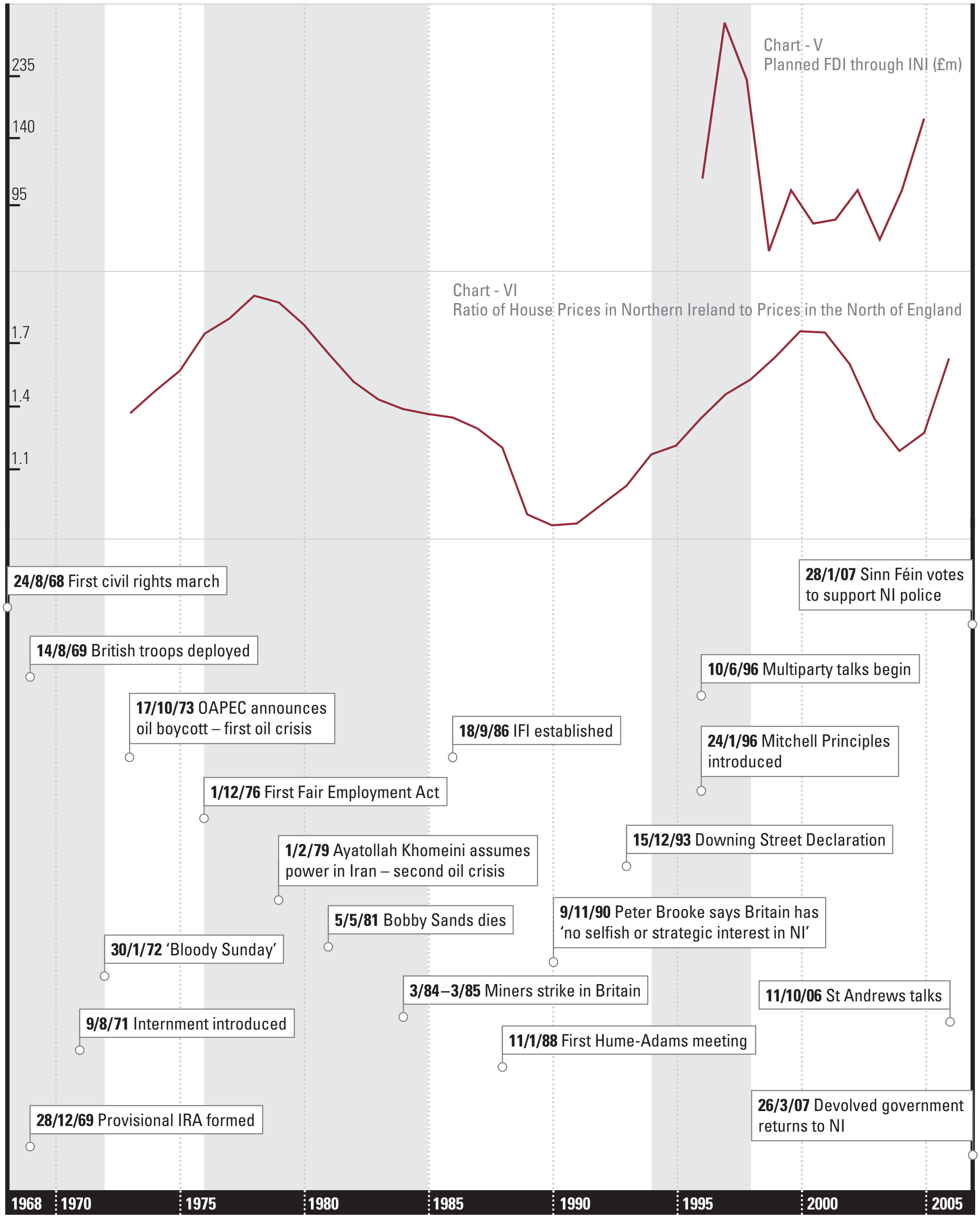


Chart - V
Planned FDI through INI (£m)
235
140
95
Chart - VI
Ratio of House Prices in Northern Ireland to Prices in the North of England
1.7
1.4
1.1
24/8/68 First civil rights march
14/8/69 British troops deployed
17/10/73 OAPEC announces oil boycott – first oil crisis
1/12/76 First Fair Employment Act
1/2/79 Ayatollah Khomeini assumes power in Iran – second oil crisis
5/5/81 Bobby Sands dies
30/1/72 'Bloody Sunday'
9/8/71 Internment introduced
28/12/69 Provisional IRA formed
18/9/86 IFI established
3/84–3/85 Miners strike in Britain
11/1/88 First Hume-Adams meeting
9/11/90 Peter Brooke says Britain has 'no selfish or strategic interest in NI'
15/12/93 Downing Street Declaration
24/1/96 Mitchell Principles introduced
10/6/96 Multiparty talks begin
28/1/07 Sinn Féin votes to support NI police
11/10/06 St Andrews talks
26/3/07 Devolved government returns to NI
1968
1970
1975
1980
1985
1990
1995
2000
2005

To hell with the future, let's get on with the past!

Anonymous protestor[1]

Violence and fear settled over Northern Ireland like a heavy, unyielding fog. The conflict hurt the economy. Unemployment rose, with violence, in a deadly cycle of escalating misery.

Senator George Mitchell[2]

The unemployment in our bones
Erupting on our hands in stones;
The thought of violence a relief,
The act of violence a grief;
Our bitterness and love
Hand in glove.

Seamus Deane*

Unless you achieve economic transformation, you can't have a stable society.

Sir George Quigley[3]

Economic growth created a culture of work. It created a sense of change, a sense of hope, a sense of new circumstances...A significant increase in prosperity gave a lot of people hope and a stake in society and changed the complexion of society. It moved the Provos away from violence, or accelerated the move away from violence.

Dr. Alasdair McDonnell, MP[4]

What our people need above all is a better life; we in this Chamber have the power to give them that. They need each of us to commit ourselves to the re-establishment of political institutions without delay and to a final end to sectarianism, violence, terror, criminality and racketeering, and to stand up for a lawful society and for policing institutions. That is what is needed to unlock our economic potential, to attract more inward investment, and to emulate and share in the outstanding growth and development in the Southern part of our island.

Northern Ireland Business Alliance[5]

* From the poem, "Derry", reprinted by kind permission of the author and The Gallery Press, Loughcrew, Oldcastle, County Meath, Ireland from *Selected Poems* (1988).

# Contents

# Summary

The agreement between two bitter and longstanding political enemies in Northern Ireland to share power from May 2007 has taken over three decades to emerge. In March 2007, the Democratic Unionist Party, the largest of the Unionist parties, agreed to form a joint government with Sinn Féin, the largest of the Nationalist parties and the political wing of the IRA.

Day to day commentary on Northern Ireland understandably concentrates on political developments. However, the economic context in which the conflict unfolded has exerted a powerful influence on those developments, albeit with a longer and less visible rhythm. In this paper we analyse these economic drivers. In particular, we examine policies implemented in Northern Ireland that may provide valuable lessons in solving deep-seated conflicts elsewhere. Naturally, given the mission of The Portland Trust, we hope that some of these lessons may prove useful in the Middle East.

The overarching economic lesson from Northern Ireland is this: economic progress is crucial to the political forces that favour peace. Without it, even small acts of sabotage can derail a peace process. But supported by economic momentum, a peace process can resist violent shocks meant to derail it.

If this is the central theme emerging from the case of Northern Ireland, there are four specific economic lessons to draw:

1. Economic disparity was a principal aggravating factor in touching off and sustaining violence. Together with a series of legislative changes, improved economic conditions helped reduce the disparity between Catholic and Protestant unemployment rates from as high as 14% in 1985 to about 3.5% in 2004;

2. Public sector financial support by the British government underpinned the economy through the most difficult periods of the Troubles, although a side effect of subsidies was to reduce productivity;

3. Private sector growth supported by substantial foreign direct investment, from the US in particular, was a key driver of increased employment and improved living standards. Business organisations became a key lobby for peace;

4. International mediation* began around economic issues. Senator George Mitchell, who eventually chaired the talks that led to the 1998 Agreement,† first went to Northern Ireland as a special economic adviser. Economic discussions became a platform for political settlement.

The importance of economics in conflict resolution is that it sets aside the question of motive, of grievance, of historical rights and wrongs, and focuses instead on the question of economic opportunity: what conditions – economic conditions in particular – have made the conflict possible? For if these conditions can be removed, progress to end the conflict might be made, just as surely as if the motives had been removed.

* By 'international mediation', we exclude the UK and the Republic of Ireland.

† Some, primarily from the Unionist community, feel that the name, 'Good Friday Agreement', is inappropriate for a non-religious treaty. Some refer to it as the 'Belfast Agreement'. This report will adopt the less contentious term, '1998 Agreement', throughout.

## Section one

# Economic Hardship, Inequality and Violence

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Economic disparity between Protestants and Catholics gave rise to violence

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An improving economy, together with legislation, lessened the disparity

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Catholic economic status converged relatively rapidly to the Protestant one

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Economic disparity between Catholics and Protestants was a principal aggravating factor in touching off and sustaining violence in Northern Ireland. Many Catholics trace the disparity all the way back to the days when Protestants settled the six counties of Ulster in the 17th century and instituted policies of economic subjugation. Recent disparities served to keep this historical grievance fresh in Catholic minds.

**Economic decline**

At the end of World War II, the economy of Northern Ireland stood on three pillars: agriculture, textiles and a handful of heavy manufacturing industries. In the following two decades the economy experienced decline, which increasing government intervention attempted, with mixed success, to slow. Industries found themselves ill-equipped to compete in a growing global market.

With the decline of the economy, a sense of insecurity spread. Communities closed in on themselves, holding ever more jealously to what they had. As government intervention in the economy grew, so did the power of local authorities to discriminate in the allocation of economic benefits.[7] Where the hold on livelihood and power was at its most precarious, discrimination was at its harshest.[8] Economic decline deepened Northern Ireland's divisions, poising its communities for conflict.

Matters came to a head in the late 1960s when the global civil rights movement broke on Northern Ireland. The demand for equal rights initially found expression in peaceful demonstrations, but violence erupted in 1968.

Despite the mounting violence, the economy did well at the beginning of the 1970s. However, the first oil shock of 1973 sent it tumbling. Only a series of ever-larger infusions of money from Westminster – the so-called subvention – kept it from complete collapse, in large part by swelling the public sector. When the second oil shock hit in 1979, it caused economic suffering across the UK. Westminster could spare little additional money for Northern Ireland, and the level of subvention stayed flat through the 1980s, despite the fact that UK industry had entered a tumultuous era of reform.

**Pervasive unemployment**

Unemployment was chronic and pervasive. By 1971, Catholic male unemployment was estimated at 17.7%, nearly three times the Protestant male rate.[9] Between 1979 and 1988, employment in manufacturing fell by 40%.[10] Total male unemployment between 1978–1987 rose from under 10% to over 20%.[11] This compares to a male unemployment rate in England and Wales in 1987 of around 12%.[12] Among the unemployed, those in Northern Ireland were far likelier than those in England and Wales to have been jobless for more than a year.

## Unemployment and violence

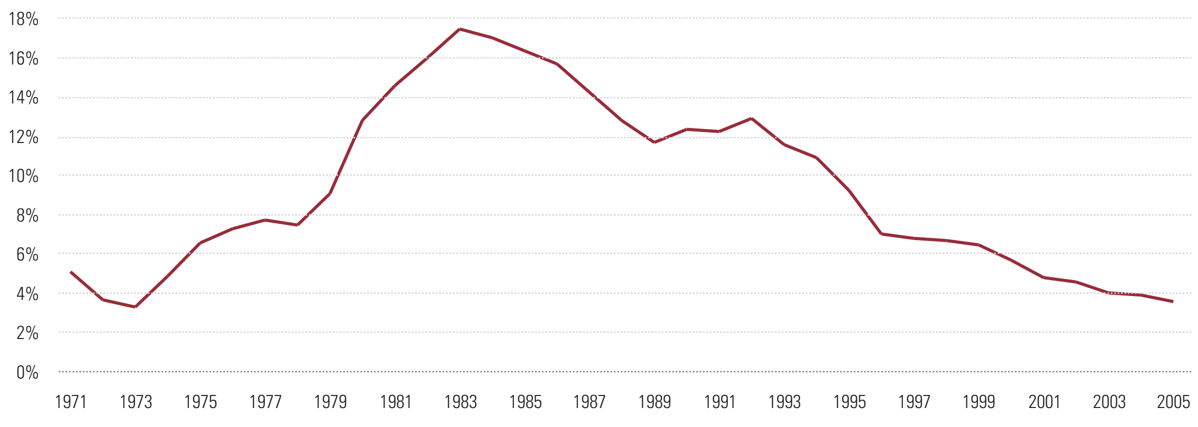
The modern Irish Republican Army (IRA) first arose as a 'neighbourhood defence organisation'. The areas it claimed to defend were poor Catholic neighbourhoods vulnerable to Loyalist attacks. The 1978 Glover Report, a secret study of the nature of the IRA commissioned by the British military, assessed that most IRA members came from the ranks of the poorer working-class poised precariously just above the unemployed.[13] Although earlier studies[14] found no causal relationship between unemployment and violence, and although many acts of violence were merely criminal or opportunistic, a more recent study finds a pronounced causal relationship between unemployment and violence.[15]

Increased prosperity lessened the appeal of violence and strengthened a shared reluctance to turn to violence, altering the political preferences of both Protestants and Catholics. Some observers have suggested that greater prosperity among Catholics led them to modify their constitutional preferences,[17] namely, away from an uncompromising demand for unification with the Republic of Ireland.[18]

## Anti-discrimination legislation

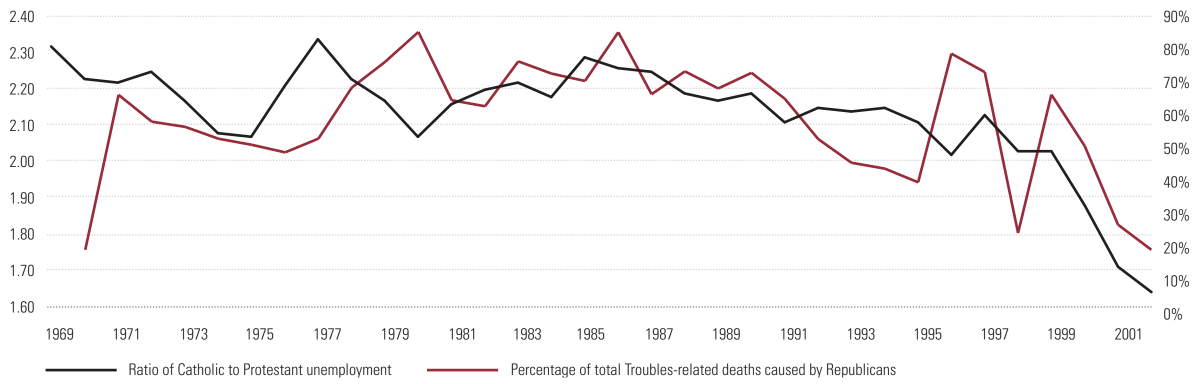
Anti-discrimination legislation redressing deep-rooted economic inequalities opened the way to resolving political disputes. Many Catholics believed they would get fair treatment only if

Unemployment rate




Sources: Oxford Economics, Ltd; Northern Ireland Statistics and Research Agency.

Relationship between unemployment and violence




Source: Honaker, Unemployment and Violence in Northern Ireland: A Missing Data Model for Ecological Inference (2004).[16]

Northern Ireland was united with the Republic of Ireland. Although new laws, which addressed discrimination in education, housing, the electoral system and the labour market, did not eliminate inequalities immediately, steadfast government commitment to closing the gap between Protestants and Catholics encouraged both sides to persevere through the peace process.[19] This commitment presented Catholics with another way of remedying their grievances short of uniting with the Republic, an outcome abhorrent to most Protestants.

A series of initiatives, starting with the 1973 Constitution Act but with increasing effect after the Fair Employment Act of 1976, introduced progressively stricter and more comprehensive protections against employment discrimination.

The Act established the Fair Employment Agency (FEA), which monitored the law's implementation. In 1989 a second Fair Employment Act replaced the FEA with the Fair Employment Commission (FEC),endowing it with greater power to sanction employers not abiding by the regulations.

| Landmark Anti-discrimation Laws | |
|---|---|
| 1947 | Northern Ireland Education Act |
| 1968 | Electoral Law Act |
| 1970 | Housing Executive Act |
| 1973 | Constitution Act |
| 1976 | Fair Employment Act |
| 1989 | Second Fair Employment Act |

Currently, Northern Ireland firms with more than 25 employees must regularly report on the religious composition of their workforce.

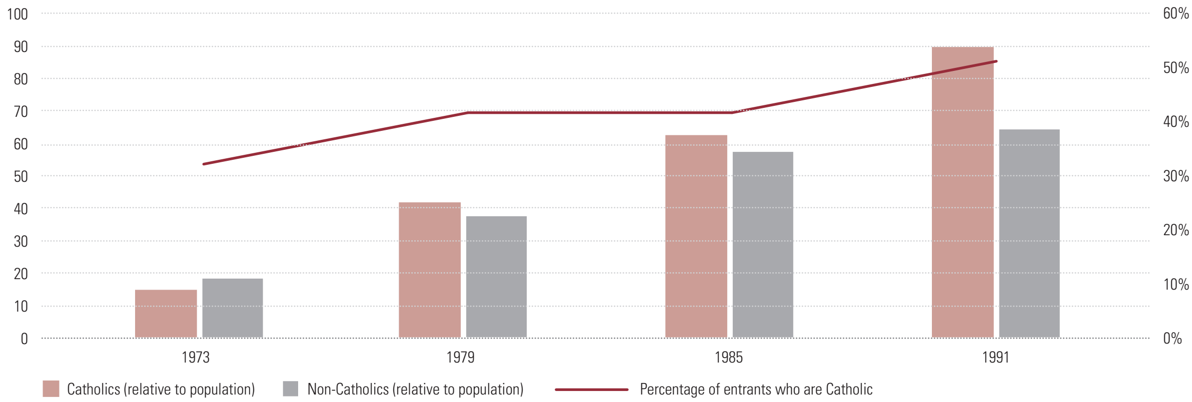
In 1971 the Northern Ireland Housing Executive was established. Decisions about the allocation of housing passed from local, sometimes partisan, politicians into the hands of the centralised Executive. By 1990 Northern Ireland's Standing Advisory Commission on Human Rights found there was no longer discrimination in the provision of public housing.[20] The Continuous Household Survey for 1990–1991 found that only 3% of respondents identified housing as a priority spending area.

The Northern Ireland Education Act (1947) established free, selective secondary education along the lines of the England and Wales Education Act (1944). Tertiary education then expanded: Queen's University in Belfast grew rapidly, and in 1984 a second university merged with a polytechnic to form the University of Ulster. These reforms principally benefited Catholics. In 1953 Catholics comprised less than one in five of Queen's student body; by the late 1970s, Catholics and Protestants were equally represented in institutes of higher and further education.[21] At the beginning of the Troubles, state funding for Catholic schools was capped at 85% of capital costs. By 1993 Catholic schools could opt for 100% funding.

## Economic turnaround

The economy began to grow from the late 1980s. GDP per capita rose from £5,858 in 1989 to £9,235

Rates of entry to higher education by religion relative to population*




Sources: Gallagher, Majority Minority Review 1, Education in a Divided Society: A Review of Research and Policy, 2nd edition (1995)[22]; The Religion Reports of the Northern Ireland Census; and Northern Ireland Census 2001 Key Statistics (2002).

* To obtain the two indexed values of the numbers of entrants to higher education, the absolute number of entrants for Catholics and for non-Catholics were divided by the estimated proportion of the overall population formed.

in 1997, a growth rate that outpaced the rest of the UK's over the same period. In 1989 GDP per capita in Northern Ireland was 76.4% of the figure for the whole UK. By 1997 it was 80.4%.[23] However, GDP per capita in Northern Ireland converged more slowly to the overall UK level than has, on average, the GDP per capita in other, comparable regions. Northern Ireland was not catching up as quickly as might be expected.[24] Notwithstanding, on the eve of the 1998 Agreement, the unemployment gap between Protestants and Catholics had closed to about 5%.[25]

### Catholic-Protestant socio-economic convergence

One study that assessed social mobility in Northern Ireland between 1973 and 1996 concluded that the class structures of Protestant and Catholic communities had largely converged by the mid-1990s, a convergence it attributes largely to reforms in education.[26] The convergence happened quickly: an analysis from 2001 suggests that only 17% of Catholics in the upper service class[27] were born into that class. This is half the figure for Protestants.[28] Whereas the Catholic middle class traditionally served the needs of the Catholic community exclusively, a substantial proportion is now employed in the public sector.[29]

Centuries of Catholic disadvantage were, to a remarkable degree, reversed in a matter of decades. By the fourth quarter of 2006, overall unemployment had fallen to 4.3% from about 17% in 1984.[30] More importantly, perhaps, by 2004 the unemployment gap between Catholics and Protestants had already fallen below 4% from over 10% as recently as 1991.[31]

## Section two

# Public Sector Support

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Public sector spending supported the economy, particularly employment, through the Troubles

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While supporting employment, such spending hurt productivity

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The private sector's relative share of the economy grew as the peace process gained momentum

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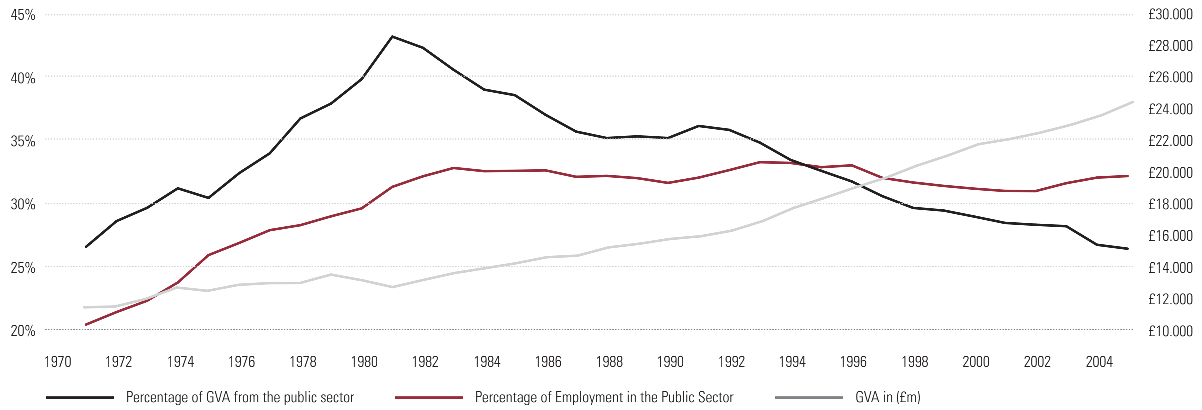
Public sector spending sustained Northern Ireland's economy through the Troubles, although it also damaged Northern Ireland's competitiveness, and at its worst, when narrowly directed by partisan administrators to their own constituents, it entrenched division and became yet another point of grievance. Public sector spending may thus, paradoxically, have both limited the intensity of violence and increased its persistence. The presumed dependence of Northern Ireland's economic stability on generous government support has made the reforms needed for long-term prosperity more difficult to achieve.

After World War II, Northern Ireland's economy began to falter, and by the early 1970s, its manufacturing industry was in rapid decline. Although the 1960s saw the growth in Northern Ireland's manufacturing output outstrip that of any other region in the UK, government was slow to introduce grant schemes, tax and other incentives to encourage international investment. When political violence broke out at the end of the sixties, the economy lacked the resilience to absorb the blow. The crisis in global oil markets, strikes in the coal mines and increasing competition from abroad brought on a 25-year slump in manufacturing that outpaced even the rapid decline of manufacturing over that period in the rest of the UK. Between 1971 and 1984, Northern Ireland's manufacturing sector lost 74,000 jobs.[32] Its rapid decline shifted the economy towards the service sector, which depended heavily on British subsidy. While the proportion of employees in manufacturing fell from 39% in 1973 to 29% in 1991, over the same period, the proportion of employees in the service sector rose from 53% to 69%.[33]

**Public sector employment**

Money from London fuelled a dramatic expansion of the public sector in the 1970s and 1980s. In 1970 the public sector accounted for 25% of Northern Ireland's jobs. In 1992 it accounted for 39%. Paradoxically, the deteriorating security situation at first helped to mitigate the impact of economic decline, due in part to increased employment in the security sector, particularly in the Royal Ulster Constabulary. Following the imposition of direct rule in 1972, unemployment fell dramatically, from 10.9% in 1972 to 4.5% in 1973. However, the effect was temporary, and unemployment soon resumed its rise, which continued over the course of the Troubles. As the economy grew dependent on British government support to cover budget deficits, a gap opened between Northern Ireland's standard of living and its actual economic performance. The region, in other words, was living beyond its means.

Economic output and the public sector




Sources: Oxford Economics, Ltd.

## The subvention

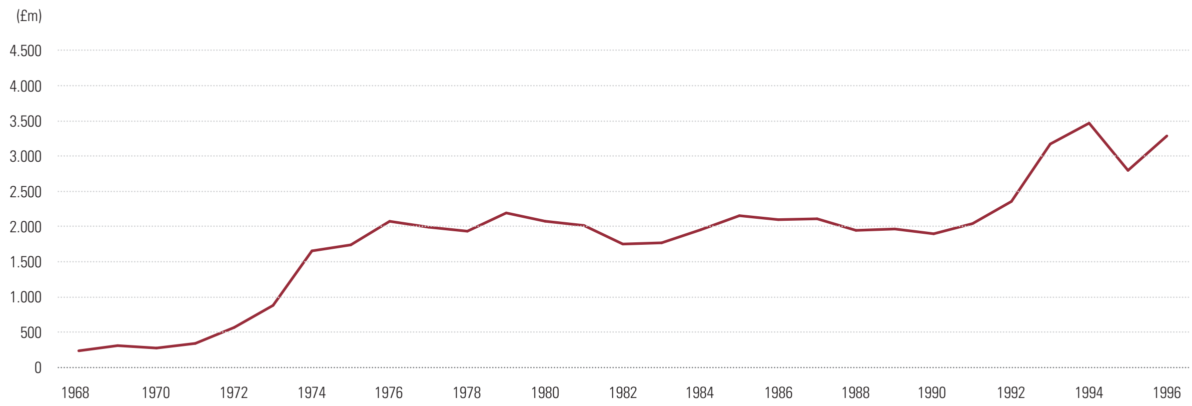
Northern Ireland's economy was subsidised ever-more heavily after the outbreak of the Troubles. In the mid-1980s, in the manufacturing sector alone, government subsidies represented 18.3% of value added in Northern Ireland. The comparable figures in England and Scotland were 0.5% and 3.7%, respectively.[34] Between 1986 and 1992, the annual average net grant expenditure per head of population in Northern Ireland was twice as high as in Great Britain as a whole.[35] According to one survey, in 1992 the subvention accounted for 23% of Northern Ireland's GDP.[36] Another survey from 1995 put the figure at a third of GDP.[37] Even today, the subvention stands at £5–6 billion per year, representing 20–25% of Northern Ireland's GDP.[38]

The subsidy cushioned the decline in manufacturing and the economic effects of the Troubles. One study estimates that between 1983 and 1997, manufacturing subsidies of various kinds either promoted or maintained 124,400 jobs, although employment 'churn' kept total employment in manufacturing steady throughout this period at about 110,000.[39]

## Subsidies, employment and productivity

Creating new jobs through subsidies was expensive. At times, subsidies even worked against job creation. It is estimated that the cost to the government of promoting each new manufacturing job rose from £8,000 in the early

British subvention to Northern Ireland




Sources: McGarry and O'Leary, Explaining Northern Ireland: Broken Images (1995).[40]

1980s to £15,000 by the late 1990s.[41] Maintaining an existing job* cost about a third as much during this period. Somewhat perversely, because industrial subsidies predominantly took the form of capital grants – subsidies intended to lower the cost of plants, equipment and the like – manufacturers substituted capital for labour at a rate higher than they might have otherwise, with the result that employment was depressed further than it might have been without the capital subsidies.[42] This outcome was at odds with the primary stated aim of the subsidy programs before 1990, namely, to bolster employment.

In bolstering employment, subsidies to small firms were especially important. One study found that, compared with unassisted small firms, assisted firms were more likely to survive their early years, and, in terms of both the number of employees and turnover, to grow faster and to a larger scale. Furthermore, selective financial assistance slightly boosted the rate of new firm formation.[43]

But subsidies to firms of all kinds did not improve their productivity. One study calculates that without subsidies, given the competitiveness of the manufacturing sector in Northern Ireland relative to the rest of the UK, this sector would have made no pre-tax profits over the period 1970–1992. Neither the subsidies themselves nor the profits they allowed firms to realise and potentially reinvest raised productivity.[44] Subsidies tended to leave productivity unchanged or even lower it, raising the question of whether they

* Mantaining an existing job' means keeping someone employed whose cost, in terms of wages and benefits, would not be economical at market rates.

should be phased out so as to build an economy sustainable in the long-term.[45]

**Changing balance between public and private sectors**

After two decades of expansion, the public sector contracted in the 1990s, making room for the private sector to begin to flourish. Employment in civil service and defence stabilised at just under 60,000. Spending on public administration and defence peaked in 1992, falling in subsequent years.[46] According to Sir George Quigley, former chairman of the Ulster Bank Group, economic improvements in the early 1990s were a false start,

...because public sector growth drove much of that development and we must remember that those drivers cannot continue into the future. The impact of the public sector is amplified in Northern Ireland since we are more dependent on it, providing some 60% of our GDP. That is why the underlying strength of the economy improved during the 90s, quite apart from the feelgood factors of the peace.[47]

Between 1988 and 1998, 102,000 jobs were created, bringing unemployment to around 7%.[48] Since 1998, a further 56,000 jobs were created, and the headline unemployment figure is now below 5%. In this decade and a half, the rate of job creation in Northern Ireland outstripped that of the rest of the UK. Dr. Alasdair McDonnell, MP, recalls the changes he witnessed in Belfast during this period,

I saw a transformation in the Markets.* Exposure to ill-health declined dramatically when the new houses were built. Housing will improve health but it will not improve mental well-being – only a job will give dignity. We used to have 1,000 unemployed out of 3,000 in the area. Yet, once we opened up the Gasworks,† unemployment disappeared. It's now below five per cent – anybody who wants a job can get a job.[49]

* One of the most blighted neighbourhoods of inner-city Belfast.
† A redevelopment zone on the site of a disused gasworks.

## Section three

# Private Sector Expansion

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Economic incentives provided a strong argument for peace

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In a virtuous circle, foreign direct investment rose as prospects for peace brightened

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Business played an important role in advancing the peace process

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At the outset of the Troubles, the few large businesses on which the economy of Northern Ireland depended were bastions of Protestant privilege and in Catholic eyes prominent symbols of discrimination. Gradually, the pressure of public opinion and government legislation opened up these companies to Catholics, and by the early 1990s the private sector and its associated organisations had become some of peace's strongest advocates. The political breakthroughs of 1993 and 1994 resulted in a surge of foreign direct investment, especially from the US, while businesses within Northern Ireland became more directly committed to the peace process, publicly advancing visions of a tangible peace dividend.

Some of the first efforts to create an economic track to complement the political track of the peace process followed the 1985 Anglo-Irish Agreement. In 1986, Britain and the Republic of Ireland established the International Fund for Ireland (IFI), whose objectives were to promote economic and social advancement and to encourage dialogue between Nationalists and Unionists throughout Northern Ireland and the Republic of Ireland. IFI's initial contributors were the US, Canada and New Zealand; the EU and Australia later joined as donors. Since its founding, some £383 million have passed through IFI's hands.

IFI was especially eager to encourage small enterprises in parallel with its efforts to foster civil society and cross-border reconciliation. It focused on attracting new investment and helping small and midsized companies develop strategic partnerships with local or North American companies.

## The peace dividend

In 1994, with political progress on the horizon, the private sector advanced the concept of a 'peace dividend'. The Confederation of British Industry's (CBI) office in Northern Ireland gave the argument definitive form in a paper[50] that laid out in detail the economic benefits Northern Ireland could expect from peace. The paper subsequently exerted wide influence on the final stages of negotiation.

Northern Ireland's economic performance in the wake of the 1994 ceasefire bore out the CBI's predictions of a peace dividend. Tourism jumped 20% within a year; unemployment dropped to 11.4% – the lowest level in 14 years and more than a full point lower than the year before the ceasefire; and over £30 million of new investment ventures were announced.[51] The benefits of peace were tangible. Mari Fitzduff, an academic with long experience of Northern Ireland civil society, explains the private sector's shift in attitude and contribution, Whereas before they had been content to complain about the effect of the violence on business from the sidelines, they now began to coalesce with the Trade Unions to see if a more strategic approach could be put into place which would put pressure on both Republican and Loyalist paramilitaries to end their campaign, and to pressurise the politicians in getting down to the business of building an agreement. Groups like the Chamber of Commerce, the Institute of Directors, the Confederation of British Industry and all the major trade unions joined together and began to make statements urging the need to end the war and the need for serious political negotiation. In addition, they involved themselves in dialogue with all the political parties, including Sinn Féin, even before the ceasefires were announced in 1994. Their influence was very salutary, particularly on the Unionist political parties, who began to feel the need to respond to the pressure from them to enter into serious political dialogue.[52]

The private sector translated post-ceasefire optimism into much-needed direct foreign investment. With significant political support from London and Washington, the IFI sponsored Northern Ireland investment conventions and 'road shows' in the US from early 1995. These conferences were a forum for building informal relationships between parties who were not officially speaking to each other. Relationships did indeed form, and although there was some disappointment that no substantial investment immediately followed the investment conference in Washington DC in May 1995, the parties succeeded in clarifying the structural changes that would be needed to encourage such investment, including improving infrastructure and setting up cooperative bodies to facilitate trade between Northern Ireland and the Republic of Ireland. In time investment came.

**Peace advocacy by business**

The private sector helped ensure that workplaces free of discrimination became the norm. US firms operating in Northern Ireland adopted a set of nine equal opportunity guidelines proposed by veteran Irish politician Seán MacBride. The 'MacBride Campaign', begun in 1985 in the US by a coalition of Irish-American lobby groups, persuaded companies in more than a dozen states and almost 50 cities to condition their investment in Ireland on progress in anti-discrimination legislation.[53] In 1998, the MacBride Principles became US law.

In the two years leading up to the 1998 Agreement, the private sector articulated a pro-peace message while remaining politically neutral. Leading business organisations and businessmen formed the Group of Seven (Irish G7) in 1996 to argue the economic merits of peace. Without ever explicitly calling for a

'Yes' vote in the referendum that ratified the Agreement, the G7 ensured, through conspicuous public advocacy, that voters understood the Agreement would be good for business. It drew attention to the vast range of benefits peace would bring: increased tourism, a revived retail sector, political stability needed to attract new domestic and foreign investment, an expansion of trade with the Republic of Ireland, the shrinking of a bloated public sector and a reduction in security expenditures.

**The Irish G7 as political intermediary**

The Irish G7 knew that business alone would not bring peace to Northern Ireland. Thus, without abandoning its neutrality, the Irish G7 at times acted as a political intermediary. For instance, it helped mitigate the violence that followed the 1996 Drumcree march. Sir George Quigley, former President of the Irish G7, explains how the organisation helped political leaders get through crises,

G7 was terribly important especially given the context in which it was set up after the worst Drumcree [annual march of Unionists through Catholic areas of Belfast and a source of much sectarian tension] when large parts of Northern Ireland were driven by civil unrest and when business leaders were wondering whether we were just going backwards or, indeed, looking over the abyss. We agreed that social and economic conditions had to be addressed in order to help the politicians with their peace-building tasks. But we acknowledged that it was important to work within the context in which you found yourselves, not wait until the context was right and therefore we did not impose any pre-conditions. We felt that it was important to add the voice of business into the debate.[54]

Before the Irish G7, business leaders in Northern Ireland talked very little to politicians, and each group remained more or less narrowly focused on its own interests. Once the interests of the business community – not least an interest in peace – found institutional expression in the Irish G7, both the political and economic tracks of the peace process benefited: politically, a new, moderate voice and conduit for political dialogue emerged; economically, politicians became more aware of the economic implications of the policies they espoused.

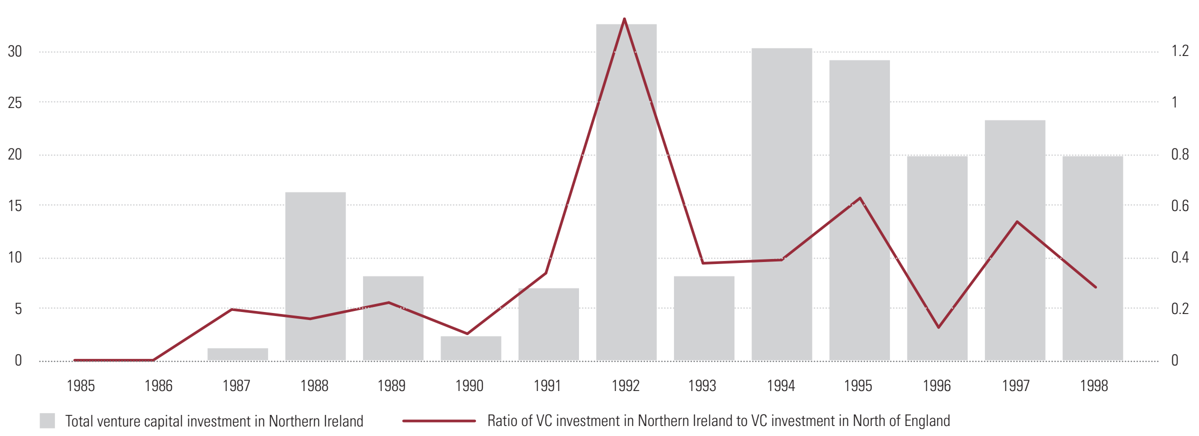
**The Northern Ireland Growth Challenge**

The theme of a peace dividend was also taken up by a coalition of private sector organisations, the Northern Ireland Growth Challenge (NIGC), which pursued a strategy of developing 'clusters' – miniature Silicon Valleys – in industries like health technologies and software. The NIGC, which drew membership from nearly every significant industry in Northern Ireland, argued that reaching a political settlement was the best way to improve competitiveness and growth, as well as to realise the full potential of North-South economic cooperation.[55]

The North's economy had been isolated by the 1921 Partition of the Island of Ireland. The Troubles prolonged the isolation. In 1991, seven years before the peace agreement, the umbrella organisation for Northern Ireland business, the Confederation of British Industry (CBI), joined forces with its counterpart in the Republic of Ireland, the Irish Business and Employers' Confederation (IBEC), to form the Joint Business Council (JBC). The mission of the JBC is to foster cooperation and trade between Northern Ireland and the Republic. By 1994, some 40% of the Republic of Ireland's roll-on, roll-off traffic passed through Northern Ireland ports.[56] Before the 1998 Agreement, only 4% of the Republic's imports came from Northern Ireland, and only 5% of the North's came from the South.[57] In the last ten years, total trade between the two regions has increased by 44% in real terms, growing at an average annual rate of 4.5% from North to South and 4% from South to North, so that by 2005, total North-South trade equalled about 10% of Northern Ireland's GDP.[58]

After the May 1998 referendum, the PA Consulting Group surveyed the directors of 143 top companies

Venture capital investment in Northern Ireland




Sources: Mason and Harrison, The Geography of Venture Capital Investment in the UK (2002).[60]

in Northern Ireland and the Republic. The pollsters found that 88% of businesses were optimistic about the economic effects of the referendum. The directors predicted new investment of £87 million and 7,000 new jobs. Half the companies were planning to invest and hire workers.[59]

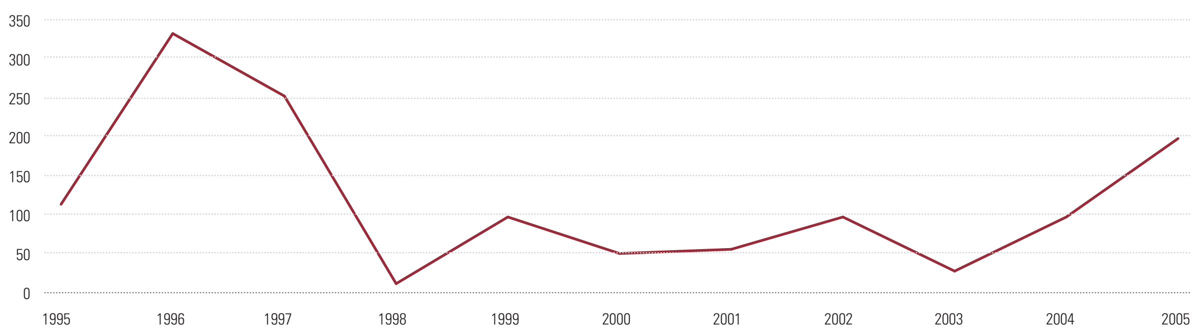
The small business sector was a key to increasing employment opportunities and spreading prosperity across communities and sectors of society. Even incremental improvements had a substantial impact. As Mark Ennis, former chairman of CBI-NI, explains,

95% of our firms employ 10 people or fewer and 67% of our businesses are family-owned. If you can improve the decision-making capability of the 95% of our businesses who are actually out there doing it, and enable each one to carry one extra job, that's a huge number of jobs – 50,000 jobs would be created.[61]

### Investment from the US

Between 1994 and 2000, just under $1.5 billion was invested in Northern Ireland by US firms. Following the 1998 Agreement, direct investment from the US increased and came to account for 10% of the jobs in Northern Ireland.[62] Parts of Northern Ireland's infrastructure were excellent. High education levels played a helpful role. A large percentage of university students pursued technical degrees. High-tech companies such as Nortel and Fujitsu cite the educated

US direct investment through "Invest Northern Ireland"




Sources: Invest Northern Ireland.

workforce when explaining why they chose to locate and invest in Northern Ireland – and they cite the Troubles when explaining why they did not move in sooner.

**Continuing concern over the Northern Ireland economy**

The business community has continued to stress the need for ongoing economic reform as a way of ensuring both greater prosperity and political stability. Its principal representative body, the Northern Ireland Business Alliance (NIBA), comprises leaders from the Confederation of British Industry, the Institute of Directors, the Northern Ireland Chamber of Commerce and Industry, the Northern Ireland Centre for Competitiveness and the Federation of Small Business.

In May 2006, Peter Hain, the Secretary of State for Northern Ireland, convened an Assembly of the politicians elected to the suspended Northern Ireland Assembly in an attempt to reach agreement about the composition of a new Executive. The first item of substantive business on its agenda was a motion on 'Economic Challenges', submitted by the Secretary of State. In preparation for the debate, the members of the Assembly invited NIBA to outline the current state of Northern Ireland's economy. Underlying their presentation was the assumption that development of the economy would prevent further political violence.[63]

Northern Ireland business leaders continue to be concerned that the economy of Northern Ireland, which on the surface has performed robustly in the last 15 years, suffers from several vulnerabilities, with worrisome implications for the long-term prospects of peace. In particular, 60-70% of Northern Ireland's GDP depends on public sector spending, and the jobs created in the private sector tend to be in low value-added services. Productivity also remains well below the UK average.[64]

## Section four

# International Involvement

–

Joint efforts by the UK and the Republic of Ireland were crucial to the peace process

–

The US acted as an even-handed mediator during critical negotiations

–

The US used economics as a platform to advance political discussions

–

From the beginning, the conflict in Northern Ireland had an international dimension. Northern Ireland came into being with the Anglo-Irish Treaty, which partitioned the island of Ireland in 1921. Until then, the island had been a single national entity under British rule. Generally speaking, Unionists looked to Britain for support while the Nationalists looked to the Republic of Ireland. The Troubles never became a proxy fight between Britain and the Republic of Ireland. The two countries sought peace, and as the Troubles wore on, they increasingly undertook joint efforts to attain it.

## An overriding interest in peace

The first fruit of these efforts was the 1985 Anglo-Irish Agreement. It gave the Republic a 'consultative' role in Northern Ireland's affairs and recognised the principle of consent, which became the cornerstone of the 1998 Agreement. According to this principle, any change in the political status of Northern Ireland would come about only with the consent of a majority of the people of Northern Ireland. In 1990 the UK's Secretary of State for Northern Ireland, Peter Brooke, MP, announced that Britain had "no selfish, strategic, or economic interest in Northern Ireland," renouncing any British designs on Northern Ireland beyond carrying out the will of its people. Three years later the Downing Street Declaration made Brooke's words the official position of the British government. The other party

| International Involvement in the peace Process | |
|---|---|
| 1969 | British troops deployed |
| 1972 | Direct rule introduced |
| 1974 | Sunningdale Agreement negotiated |
| 1985 | Anglo-Irish Agreement |
| 1990 | Northern Ireland Secretary of State Sir Peter Brooke authorises secret contacts with IRA |
| 1992 | Irish Prime Minister Albert Reynolds authorises secret contacts with Sinn Féin |
| 1993 | Downing Street Declaration |
| 1994 | Senator George Mitchell appointed as special economic adviser on Northern Ireland |
| 1995 | President Bill Clinton grants Gerry Adams US entry visa |
| 1995 – present | Foreign direct investment in Northern Ireland, particularly from the US, picks up |
| 1996 – 1998 | Mitchell chairs talks which lead to the 1998 Agreement |
| 2006 | St Andrews Agreement |

to the declaration, the Republic of Ireland, committed, in the context of a final peace agreement, to drop from its Constitution Articles 2 and 3 claiming Northern Ireland as its own territory.

Both countries made peace their primary concern in Northern Ireland. The new combination of good faith, influence, respect for local conditions and clarity regarding their own interests meant the two countries could exert continuous, concerted, purposeful pressure on the conflict's protagonists from either side. David Ervine, formerly a Loyalist militant, now one of the most progressive Unionist politicians, captures the effect of this attention, which was essential to reaching the 1998 Agreement,

I believe divided parochial societies take on hitherto unknown degrees of responsibility when the world is watching them. You'll always get the fool who will behave badly, but in the main they behave well because they are being visited with a different set of standards and a whole host of potentials.[65]

**The US role**

The United States might never have helped advance the peace process had political influence within North America not shifted, in the early 1990s, away from groups like Noraid, which was suspected of raising funds for the IRA, to new groups that favoured peaceful solutions.

The Irish-American lobby proved instrumental in creating the political pressure in the US for this shift. Niall O'Dowd, a New York-based editor who played a large role in forming the new, pro-peace Irish-American lobbies, comments on US involvement in Northern Ireland,

The impetus came as the 1992 presidential election approached, and things were changing in Ireland. One of the beliefs was that without US participation as a third party, nothing would ever really come together. Our view was that if America got involved, it could make an impact.[66]

From 1993 onwards, outside observers and mediators, especially the US, would prove vital to pushing Northern Ireland towards a peaceful settlement. One of their chief instruments of persuasion was the promise of economic benefits. From the first days of its involvement in the peace process, the US took the view that the path to substantive political talks would pass over the ground of economic development. James Lyons, The US Observer to the International Fund for Ireland (IFI), describes the American attitude,

When we first became involved in 1993, the thing that struck us at the outset was the importance of economic development underpinning the peace process. If we weren't able to make a difference in the lives of everyday men and women, the political solution would rest on a very flimsy basis. I believe the phrase we used was, 'peace meets the streets'.[67]

Thus when President Clinton sought to fulfil his campaign promise to become involved in the Northern Ireland peace process, his first public gesture was to appoint a Special Economic Adviser on Northern Ireland, the distinguished former Senator George Mitchell, with the understanding that Senator Mitchell would in effect be the Clinton's Special Envoy to Northern Ireland.

In his capacity as envoy, Senator Mitchell first tackled the issue of decommissioning weapons (1995 – 1996) and then chaired the talks (1996 – 1998) that produced the 1998 Agreement. At first, Unionists in particular suspected his neutrality, but as the talks unfolded he won almost universal praise for his good offices. James Lyons, the US Observer to the IFI, explains the nature of the American involvement,

There was a suspicion that we represented a 'green' Irish-American interest, and we had to build trust with the Unionist community. We had to convince them and said to them, "We're not here for a united Ireland, we're here for an agreed Ireland." Our agenda was agreement, to stop the terrorism which was clearly, very clearly not in the economic interest.[68]

Senator Mitchell laid the groundwork for the final, successful burst of talks by persuading both sides to abide by the 'Mitchell Principles', according to which any party resorting to violence would be excluded from negotiations. Factions on both sides felt pressure to adhere to these principles, which raised the cost of violence to the parties, in terms of legitimacy and credibility, with the result that the level of violence fell, and the political environment became conducive to peace. In addition to the Mitchell Principles, another tactic – handing off complex issues, such as the decommissioning of paramilitary weapons, to outside observers – allowed the parties in conflict more flexibility in their negotiating positions.

**Political support for investment**

Even after the 1998 Agreement, the private sector depended on political support to attract investment. Investors remained nervous about putting their money into a historically unstable region. Northern Ireland's image as a dangerous place to do business persisted. But with the support of President Clinton and Prime Minister Blair, local politicians on both sides of the dispute encouraged the private sector to invest in Northern Ireland. In a virtuous circle, large-scale foreign investment attracted yet more investment, boosting economic growth. Eight years after the 1998 Agreement, US investment accounted for about 10% of all jobs in Northern Ireland.[69]
Sir George Quigley, one of Northern Ireland's leading businessmen, captures investor thinking,

These decisions are as much location decisions, as purely investment ones, so if you have a choice, you go where your managers will think they are safer...[70]

International involvement in Northern Ireland was as crucial in the wake of the 1998 Agreement as it was in the run-up. Foreign direct investment made under the auspices of Invest Northern Ireland peaked in the year leading up to the 1998 Agreement, when it hit £530 million after experiencing a dramatic rise in the wake of the 1994 ceasefire.[71]

The US has invested particularly heavily in Northern Ireland. Already in 1993 US investment constituted about 30% of all foreign direct investment. In fiscal year 2002–2003, US investment totalled £123.43 million and has continued to rise. To take one example, in January 2005 Citigroup chose to locate one its IT centres in Belfast, promising an investment of $100 million over five years and 375 new jobs. Citigroup was drawn to Northern Ireland by a workforce that, while possessing world-class technical skills, earns wages some 30% lower that its counterparts in England or the Republic of Ireland. Invest Northern Ireland (formerly the Industrial Development Board or IDB), the governmental agency that promotes inward investment, provided $12.6 million to support the project.

# Appendices

## Appendix 1

# History of the Peace Process in Northern Ireland

From 1541 to 1800, the entire island of Ireland formed one country, the Kingdom of Ireland. In 1801, the Act of Union made this country part of the United Kingdom of Great Britain and Ireland, ruled from London. A turbulent century of agitation for independence followed. In 1921, the island was partitioned between the 26 southern counties, which became de facto independent and would later form the Republic of Ireland, and the six northern counties which had substantial Protestant populations. The result was an overwhelmingly Catholic South and a North where Protestants were in a narrow but solid majority.

Critically, after partition, Protestants dominated positions of political and economic power in Northern Ireland. Meanwhile, under provisions of its Constitution not rescinded until after the 1998 Peace Agreement, the Republic of Ireland claimed the North as part of its own territory. Within Northern Ireland, Catholics tended to see themselves as an oppressed minority; Protestants tended to feel they were living under perpetual threat of absorption into the Catholic South, thereby becoming a minority themselves.

Catholics who wanted to join the Republic, or at least secure greater independence from Britain, were known as Nationalists, and the most militant among these, the ones who wanted to unite North and South, by violence if necessary, were known as Republicans. Those – mostly Protestant – who wished to remain part of the United Kingdom came to be called Unionists, and the most militant among them, Loyalists.

Armed hostilities between Catholics and Protestants erupted with bloody riots in Derry in 1968 and a year later in Derry and Belfast with fatal results. British troops arrived in 1969 to restore order and were initially welcomed by most Catholics, but paramilitary groups on both sides resisted pacification with bombings and other acts of terrorism. This running conflict, which killed over 3,500 people and lingered on into the 1990s, became known as ‘The Troubles’.

Efforts to find a political arrangement that would end the conflict began almost as soon as the conflict itself. Until the 1998 Agreement, these all failed, in the sense that they did not end the violence, but they succeeded in laying the groundwork, in defining the parameters, for the permanent settlement.

The most important attempt, before the 1990s, to reach a peace settlement, was the 1985 Anglo-Irish Agreement, signed by the British Prime Minister, Margaret Thatcher, as well as the Irish Prime Minister, Garrett FitzGerald. The Agreement established two important principles: the principle of consent, according to which there would be no change in the political status of Northern Ireland without the consent of the majority of its population; and the principle that the Republic of Ireland should have a say in any settlement of the Northern Ireland question. The second principle infuriated Unionists, and they scuttled the Agreement. Nevertheless, these two principles would become cornerstones of the 1998 Agreement.

Talks between Britain and Ireland, and between these two countries and various factions in the conflict, continued on and off throughout the 1980s. The talks that would eventually lead to the 1998 Agreement really began, though, when John Hume, the leader of the largest Nationalist party, the Social Democratic and Labour Party (SDLP), opened a dialogue in 1988 with Gerry Adams, head of Sinn Féin, the political arm of the Irish Republic Army (IRA). The result of the Hume-Adams talks was something of Nationalist consensus, which tempered Sinn Féin's 'Armalite and ballot box' strategy with the SDLP's peaceful political aspirations, making the former receptive to a negotiated settlement.

Taking a chance on Sinn Féin's ostensibly new outlook, the British Secretary of State for Northern Ireland, Sir Peter Brooke, authorised secret contacts with the IRA in 1990. Shortly afterwards, the Irish Prime Minister, Albert Reynolds, independently authorised his government to talk to Sinn Féin. These two sets of talks culminated in the IRA's ceasefire declaration of 31 August 1994 and the first public talks between Sinn Féin and the British government later that year. A second strand of talks between the British and Irish governments led to the Downing Street Declaration of 15 December 1993, in which they recognised Northern Ireland's right to self-determination, independent of their own interests.

In 1995, as talks and publicity began to legitimise Sinn Féin, allowing it to shed its terrorist tag without laying down its weapons, the British government insisted that before negotiations go any farther, the IRA disarm. The IRA rejected this precondition, and in 1996, it resumed its bombings, even as Northern Ireland's other parties began multilateral talks in June under the chairmanship of former US Senator George Mitchell.

In 1992, Bill Clinton, when he was still a candidate running for the presidency, promised to become involved in the peace process, suggesting he would appoint a high-level special envoy to the region. The British government, as well as Unionists in Northern Ireland, objected to the very idea of a special envoy, since it was not for other nations to interfere in what they regarded as a domestic affair. President Clinton, who saw economics as a key driver of peace, appointed Senator Mitchell his Special Economic Adviser on Northern Ireland, while simultaneously increasing US efforts to boost the economy of Northern Ireland, for instance, by raising the US contribution to the International Fund for Ireland by 50%.

Through patient dialogue, trust in Senator Mitchell grew, and in late 1995, his brief expanded beyond the economic to include finding a way around the most difficult political impasse, the decommissioning of IRA arms. The solution he recommended in the Mitchell Report of February 1996 was that decommissioning be carried out in parallel with peace talks, not before them. The British government objected to this recommendation, sticking to its insistence on disarmament before negotiation.

Despite the IRA bombings that followed, Senator Mitchell was asked to chair the talks that began in June 1996 between Northern Ireland's political parties, Nationalist and Unionist alike, with the notable absence of Sinn Féin. At first these talks seemed to go nowhere, often deteriorating into squabbles over procedural issues. Then in 1997 the British Labour Party won a large parliamentary majority, and the new Prime Minister, Tony Blair, relaxed his government's insistence on disarmament before negotiation. The IRA renewed its ceasefire in July, and Sinn Féin was invited to join the multiparty talks. Later that year it agreed to the Mitchell Principles laid out in the Mitchell Report, thereby committing itself, at least in principle, to disarm.

Senator Mitchell set a deadline of 9 April 1998 to reach a settlement. After weeks of impassioned talks that ran 18 hours past the midnight deadline, Senator Mitchell announced an agreement, now known as the Belfast or Good Friday Agreement, or simply even the 1998 Agreement. Its chief stipulations were the principle of consent, according to which there would be no change in the political status of Northern Ireland without the consent of a majority of its citizens; a commitment by all parties that from now on politics would be conducted without violence; the establishment of a legislature, the Northern Ireland Assembly; and the establishment of several multilateral consultative and monitoring bodies.

The Agreement would only go into effect if ratified by a popular referendum. After a massive campaign by 'Vote Yes' groups on both sides, the referendum passed with a vote of 71%. In June

1998, the citizen of Northern Ireland chose the 108 members of the first Northern Ireland Assembly.

Still the peace was shaky. Two major sticking points remained: first, the IRA continued to resist immediate and transparent disarmament, despite its commitment to the Mitchell Principles (and Unionists in turn objected to participating in a government with Sinn Féin as long as the IRA remained armed). Second, Sinn Féin refused to endorse Northern Ireland's police force, which descended from the Royal Ulster Constabulary, an object of Nationalist hatred since the early days of the Troubles.

These two issues bitterly divided Nationalists and Unionists, and the story of the peace process since the 1998 Agreement has largely been the story of their resolution. In order to pressure Sinn Féin to implement the disarmament of the IRA and to pressure the Unionist parties to participate in government with Sinn Féin, Westminster several times suspended the Northern Ireland Assembly, suspending it indefinitely in October 2002.

Finally, on 28 July 2005, the IRA – directly, not through Sinn Féin – formally announced the end of its armed campaign, and in September the international decommissioning body chaired by Canadian General John de Chastelain certified that the IRA had disarmed.

The brinksmanship and the erratic progress of the post-Agreement peace process strengthened the more extreme parties on both sides: Sinn Féin gained support at the expense of the moderate SDLP, while the Democratic Unionist Party (DUP), led by firebrand Ian Paisley, gained at the expense of the Ulster Unionist Party. The DUP has become the largest Unionist party, and Sinn Féin has become the largest Nationalist one.

Divided by too much history, it seemed incredible that Gerry Adams and Ian Paisley, now the clear leaders of their respective sides, would overcome the lingering issues standing in the way of restoring self-government to Northern Ireland. Ian Paisley, for one, still refused to countenance sitting in a government in which Sinn Féin had a part. Frustrated by the lack of progress, the Prime Ministers of Britain and the Republic of Ireland announced that the Northern Ireland Assembly would be suspended for good if the parties could not reach an agreement on power-sharing by 26 March 2007.

In October 2006, Britain and Ireland brought together the parties of Northern Ireland, including Sinn Féin and the DUP, at St Andrews in Scotland. After three days of intensive talks, an agreement emerged: Sinn Féin, in principle, endorsed the Police Service of Northern Ireland, and the DUP agreed, in principle, to share power with Sinn Féin in a newly constituted Northern Ireland Executive, the executive ministerial structure intended to represent all major parties in the Northern Ireland Assembly.

Under the St Andrews Agreement, ministers were obligated to assume their offices in the Northern Ireland Executive by 26 March 2007, or face the shut-down of the institutions of Northern Irish self-government. Between the agreement in October 2006 and this deadline, Sinn Féin formally endorsed the police force. On 26 March 2007, Gerry Adams, leader of Sinn Féin, and Ian Paisley, the most recalcitrant of the Unionist leaders, sat down together and announced they would share power, restoring self-government to Northern Ireland and fulfilling the promise of the 1998 Agreement.

## Appendix 2

# Economic Growth in the Republic of Ireland

In many ways, the economy of Northern Ireland followed a trajectory similar to that of the Republic of Ireland, although recently lagging the latter in several critical reforms. The single biggest contributor to sustainable growth in both Northern Ireland and the Republic has been foreign direct investment, but the Republic has, until the last decade, enjoyed far more success in attracting such investment, both in quantity and in quality, as measured by the value added of industries attracted.[73]

The Republic of Ireland's path to 'Celtic Tiger' status in the 1990s was often tortuous. From the 1930s to the early 1960s, the Republic followed a course of protectionism and import substitution, which resulted in stagnation and then, especially in the late 1950s, emigration. Alarm over emigration, together with recession and a balance of payments crisis, led to a reorientation towards a more open, export-led economy with strong investment incentives. This worked, and Ireland prospered until 1973, when the first oil crisis sent the economy reeling, as it did in Northern Ireland.

The government of the Republic responded the way Britain did in the North, by throwing open the floodgates of public expenditure. Insofar as it staved off collapse, this strategy, too, worked for a time, but left Ireland in an unsustainable fiscal situation. By the early 1980s, this led to a series of painful structural readjustments, another wave of emigration, and further rounds of both reforms, including large cuts to public spending, and of recriminations, including a much-asserted charge that prematurely opening the Irish economy to global competition had dealt a fatal blow to native industry.

Beginning in 1987, the Republic of Ireland recovered in an almost miraculous fashion from its earlier economic traumas, and despite the many similarities of their economic starting points, from the late 1980s onward, growth in the Republic of Ireland far outpaced that of Northern Ireland. Part of the disparity in growth was probably due to the greater political stability of the Republic, but differences in economic strategy are more likely to account for the faster growth enjoyed by the South after 1987 and in particular for the lower burden this growth placed on its public finances.

One fundamental difference lay in the two regions' industrial strategies. Historically, manufacturing had never taken off in the South, which, following the Act of Union in 1800, had to exist in the competitive shade of an already-mature British industrial base. The Republic of Ireland subsisted for most of the following two centuries on a mainly agrarian economy, with the North in the economic lead due to the concentration of manufacturing in that part of the island.

The regions' economic strategies began to diverge after World War II. While Northern Ireland tried to shore up faltering manufacturers and insulate them from global competition, the Republic of Ireland pursued a post-war industrial strategy of openness, designed to attract investment in technologically advanced sectors, such as electronics and pharmaceuticals. This eventually allowed the Republic of Ireland to 'leapfrog' Northern Ireland.

A key instrument in the economic strategy of the Republic was the Irish Industrial Development Agency (IDA), founded in 1949, which in the early 1960s began to pursue its strategy of attracting foreign direct investment. The IDA shifted strategies several times before it started realising its greatest success in the late 1980s, when it managed to draw large-scale US investment, which helped create the Celtic Tiger boom of the 1990s.[74] Halfway through this decade, the Republic of Ireland was attracting a quarter of all US investment in the EU.[75]

Where previously the IDA's emphasis had been, as in Northern Ireland, on capital grants, it gradually shifted "to indigenous development, then to providing business services rather than start-up capital, to strengthening linkages from trans-national corporations".[76] The Republic of Ireland's economic development policy increasingly focussed on inducing multinational corporations to locate high value-added production stages in the country.

By the mid-1990s, 58% of jobs in foreign-owned companies in Ireland were in the more advanced engineering, chemical and metals sectors, with only 27% of such jobs in the traditional sectors of food, clothing and textiles. In Northern Ireland, the numbers were reversed: 51% in food, clothing and textiles; 34% in metals, engineering and chemicals.

While there remains some debate on the sources of the Celtic Tiger miracle, there is widespread agreement that two factors in particular were crucial: high levels of education that resulted in a ready pool of 'human capital', and low basic corporate tax rates, for instance, a 12.5% rate on all trading income.[77] Firms that might at first have been attracted by the transfer pricing advantages afforded by the low tax rate, eventually moved high value stages of their production to the Republic of Ireland to take advantage of its educated workforce. Worries do however persist that the Republic of Ireland has done too little to develop native industry and relies too heavily on income from the exports of foreign firms based in Ireland.[78]

The Republic of Ireland's dramatic economic transformation was accompanied by changes in political outlook, and in particular changes in attitudes toward Northern Ireland.[79] In the late 1960s and 1970s, the status of Northern Ireland was a burning political issue in the South, and politicians often exploited anti-British, anti-colonialist sentiment in their domestic manoeuvring. Towards the end of the 1970s, though, the idea of a United Ireland began to lose its hold on the imagination of the Republic. The 1985 Anglo-Irish Agreement cooled the issue even further. Support for Republican groups, notably Sinn Féin, diminished, while acceptance of the permanency of the North-South border grew, until in the 1993 Downing Street Declaration, the Irish Prime Minister announced that Ireland would give up any claims to the North in the context of a final peace agreement. When this agreement was put to the public in a referendum in 1998, 94% of voters in the South approved it.

# Appendix 3

# Map and Key Facts about Northern Ireland


| | |
|---|---|
| Population | 1,710,300 (2004 est.) |
| Catholic percentage of population | 43.76% (2001 census) |
| Protestant percentage of the population | 53.13% (2001 census) |
| GDP* | approx. £25 billion |
| GDP per capita | approx. £14,600 |
| Area | 13,843 $km^2$ (5,345 sq. mls.) |

* The UK does not typically produce estimates of GDP at the regional level. The European Union, however, estimated that in 2002 Northern Ireland's GDP was €33,209m (PPP). The figure here is based on the EU one, using the UK Treasury deflators and an exchange rate of 0.64 euros per pound and further assuming a real growth rate of zero since 2002.

## Appendix 4

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