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**Brexit and the Political Economy of Northern Ireland**



**The border (Walsh 2018)**

M. Leann Brown

Independent Scholar

[mlbrown@ufl.edu](mailto:mlbrown@ufl.edu)

352.222.2126

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**Introduction**

There has been a flood of speculation, analysis, predictions and dire warnings about the possible economic and political consequences of the secession of the United Kingdom (UK) from the European Union (“Brexit”) for Northern Ireland (NI). Much of this commentary focuses on the possible effects on trade, the movement of people, foreign direct investment, and European Union (EU) funding that NI will experience after leaving the EU Single Market. This study explores these salient areas of political-economic concern. The evidence suggests that the UK exit from the EU will translate into a significant reduction in Northern Ireland’s gross product and proportionate decreases in employment due to effects on cross-border trade and economic cooperation, direct foreign investment, and the loss of EU peace and economic development funding (Stennett 2016).

Thirty years of The Troubles (1968-1998), which claimed some 3,500 lives, undermined NI’s economic wellbeing and distorted its economic structures. During the years of strife, the economy became characterized by: (1) a small manufacturing sector focusing on specialty niches, (2) a large services sector attending mostly to consumer needs, and (3) a public sector much larger than such sectors in other UK regions. John Bradley (2015, 184-185) opines that without UK financial subventions to public services which allowed the survival of consumer services, the NI economy would have been decimated similar to those of the Balkan states during the 1990s. It has taken a long time to reverse the economic damages of The Troubles, to establish power-sharing arrangements (however tenuous), and to ameliorate the fear and mistrust that make it difficult to plan and implement economic policies to address the region’s difficulties. For ten years after the 1998 Good Friday Agreement, the political will to undertake strategic planning and significant economic reform was lacking. Bradley writes: “It would be difficult to overstate the lack of progress in strategic socio-economic policy-making in Northern Ireland for more than a decade after the signing of the Belfast Agreement.”[[1]](#footnote-1) NI benefits and suffers to some degree with the fortunes of the Republic of Ireland (RoI) and the UK. It is very difficult for a regional government to maximize local policy autonomy and put in place measures that address local economic needs rather than the wider, different, and more global needs of the UK. More recently, of course, the NI economy also suffered from the 2008 global financial meltdown.[[2]](#footnote-2)

While states withdrew fairly frequently from regional economic organizations during the “first wave” of regionalism,[[3]](#footnote-3) very little literature exists to provide theoretical guidance as to how to think about the causes, processes, and consequences of states’ seceding from regional economic organizations.[[4]](#footnote-4) The European Union is so unique and advanced in terms of economic and political integration, there are no comparable cases to draw upon to build and/or test theories of member state secession. Thus, for data this study relies predominantly on the analyses of governmental sources like the Northern Ireland Assembly Research and Information Service and the British House of Commons, think tanks like the Institute of International and European Affairs and the Economic and Social Research Institute (both in Dublin), studies generated by the EU Commission and Parliament, and journalistic sources.

While obviously the jury is out with regard to outcomes given that the UK withdrawal and its consequences are ongoing, this study will argue that it is likely that both Northern Ireland and the UK will ultimately suffer at minimum a three percent reduction in GDP,[[5]](#footnote-5) and Northern Ireland will suffer economically from Brexit more than the rest of the UK save perhaps the North East and West Midlands (Stennett 2016; House of Commons 2018, 28). Trade and direct foreign investment will be negatively affected although trade perhaps more slowly than might be expected. Under the worst case scenario, various forms of funding from the EU will cease, and although Britain has committed to compensate NI for these losses, its ability and willingness to meet those obligations undoubtedly will be affected by the negative economic fallout Britain suffers from Brexit.

**Brexit and NI trade**

When Britain leaves the EU, there likely will be a strong negative impact on trade as tariffs may be levied on exports and imports from and to the UK and NI, and nontariff barriers (NTBs) such as border controls, rules of origin, or technical barriers introduced when the UK is no longer a part of the Single Market. The costs of NTBs are generally higher than that of tariffs. NI will be more negatively affected by these changes than the rest of Britain in that it exports more to the EU than it imports from it, and is therefore more vulnerable to trade barriers that may emerge after Brexit. At present, for example, EU tariffs on chemicals average about four percent. When Britain leaves the EU, its export costs on chemicals may increase by L500 million annually, not taking into account NTBs. Bulk and specialty chemicals also constitute the building blocks for other sectors. For example, chemicals represent 84% of input in medicines (House of Commons 2018, 20), so ramifications will be widespread.

Between 2004-2014, NI’s exports to the EU grew by 28% compared with the value of goods exported to non-EU states which grew by 25%. In 2017, 56% of NI’s total exports of L8.7 billion went to EU member states. The RoI remains NI’s number one destination for exports at approximately 16 percent; the value of those exports in 2017 was L2.7 billion (Polley and Hoey 2017). NI’s largest export sectors include machinery and transport equipment, agricultural products, chemicals and related products, and manufactured goods. About a quarter of NI’s exports are classified as machinery and transport equipment (Madden 2018).[[6]](#footnote-6) The RoI receives between 29 and 37.9% of NI’s service exports (Barrett 2015, 26). NI represents only 2.4% of UK exports and 1.5% of UK imports (Tonge 2017, 9). Trade between NI and the RoI is less than might be anticipated, with only food and beverages and non-metallic minerals recording the levels of trade that one might expect for two jurisdictions located on an island with a single open land border. The low trade intensity may be explained by differences in their sectoral structures and the important role (particularly in the RoI) played by transnational corporations which engage global markets rather than national and regional markets like NI (Barrett 2015, 25).

As a customs union, the EU maintains a range of tariffs, quotas and other barriers on products originating in third countries or specific non-EU countries, particularly on agricultural goods and food and beverages but also on metals such as aluminum, chemicals, electrical and optical equipment, and textiles. In 2013, the average tariff on imports from outside the EU was 5.2% which is fairly low compared with global levels but not compared to zero tariffs for intra-EU trade. Under the worst case scenario, the EU would treat imports from the UK and NI as third-country imports subject to its tariffs and quotas. With no deal, World Trade Organization fallback rates on sectors vary greatly from 1.4% on machinery, equipment and energy to 26.1% on agricultural goods (House of Commons 2018, 12). In August 2016, NI’s First and Deputy Ministers wrote to the British Prime Minister that the NI agri-food sectors were “uniquely vulnerable to both the loss of EU funding, and to potential tariff and non-tariff barriers to trade.” (Tonge 2017, 10).

Smuggling would likely increase on a wide range of goods in response to tariffs, customs, and other NTBs. Different duties on fuel and cigarettes already encourage considerable smuggling. Post-Brexit, the UK itself may also introduce tariffs or other nontariff barriers like customs controls which would increase costs for NI importers and consumers, however the UK could also remove or reduce trade barriers on third countries’ imports, for example on agricultural and food products (Barrett 2015; vi, 6). Proponents of the UK leaving the EU claim that new trade agreements concluded after Brexit will ultimately increase trade levels, and removing EU regulations and optimizing domestic economic policies will improve competitiveness and offset the negative consequences of Brexit. Most economic experts disagree.

The liberal economic and regional integration literatures suggest that trade barriers are associated with significant losses. Free trade agreements generally double the volume of trade during the decade following the agreement. Conversely, secession or disintegration can be expected to reduce trade volumes. In-depth investigations confirm that the disintegration of Yugoslavia in 1990-91 and Czechoslovakia in 1993 resulted in a significant decline in trade, but perhaps not as much as one might expect. Similarities in taste or familiarity with suppliers and brands may explain the “stickiness” of trade in the face of these changes. This suggests that the full impact of Brexit on trade flows will not be felt immediately, but instead will emerge over a period of time, perhaps more than a decade (Fidrmuc and Fidrmuc 2003 cited in Barrett 2015, 7). Small indigenous firms in NI will likely suffer most from the changes in the terms of trade.[[7]](#footnote-7) In general, both producer and consumer uncertainty will also negatively impact NI trade (Miller 2013, 100).

At the outset of negotiations, British Prime Minister Theresa May expressed the UK’s preference that the EU allow access to specific portions of the Single Market and membership in its specialist agencies after Brexit. The EU responded that it was not willing to offer a “single market light” or a “customs union light.” EU Council President Donald Tusk described May’s approach as “pick and mix.” Analysts have speculated that Britain’s post-Brexit relationship with the EU might follow the Norwegian or Swiss model of benefitting from cooperation with the EU without having Member State obligations but also lacking participation in EU decision making Tusk has said that “The EU cannot grant the rights of Norway, with the obligations of Canada.” (Zalan 2018a).[[8]](#footnote-8)

Initially, the EU proposed that the Brexit agreement create a common customs area on the island of Ireland, to which London responded that EU negotiators were attempting to disrupt the UK’s constitutional order. On March 7, 2018 as a part of Brexit negotiations, the EU issued six pages of guidelines offering the UK a classic free trade agreement with no tariffs and quotas on UK goods, with limited coverage pertaining to services. The two parties would retain their own rules and regulations which would necessitate border checks.[[9]](#footnote-9) The guidelines provide that as with other free trade agreements, rules of origin will apply and the EU will seek continued reciprocal access to fisheries and an agreement on aviation to continue safe and smooth air travel. The EU also wishes guarantees that the UK will not undercut the EU with tax policies and state subsidies. The EU will resort to “remedies” if the UK engages in unfair competition in terms of taxes and subsidies. Given that London is commonly listed as the world’s most important financial center, trade in services is a key negotiating issue for the UK.[[10]](#footnote-10) May proposed a “comprehensive system of mutual recognition” for financial services which an EU official described as an unclear concept. EU guidelines propose that “host state rules” should apply to the financial services sector (Zalan 2018b).

As was noted, a final issue areas associated with commerce at the border is the degree to which border changes will affect smuggling and other criminal activity. Bertie Ahern, the former Irish Prime Minister, has noted that it will be difficult to avoid setting up checkpoints and creating a hard border even if only 2 percent of goods and vehicles crossing the border were physically inspected. A hard border would likely increase smuggling, a major source of income for criminal groups as well as militias, which would potentially undermine the Good Friday Accords (*New Europe Online* 2017). The UK has been ambivalent regarding participation in all aspects of the EU’s policies on policing and justice affairs,[[11]](#footnote-11) however, there has been heightened cooperation between NI and the RoI since policing and justice powers were devolved to the NI Assembly. RoI Justice Minister Alan Shatter informed the Dail that the Garda would work with NI officials to ensure an effective response to “terrorism” (Miller 2013, 98-99).

The unknowns associated with this issue are multiple. What terms of trade, if any, will be negotiated between the Britain and the EU? Will the UK follow the Norwegian or Swiss model of benefitting from cooperation with the EU without having some Member State obligations but also lacking access to EU decision making (O’Ceallaigh and Kilcourse 2012, 10) or will it “crash out” of the EU and accept default World Trade Organization rules? A further important unknown is whether NI will be able to increase its exports to non-EU countries to compensate for any reductions in exports to the EU resulting from changes to its access to the Single Market. Any agreement between the UK and the EU on free trade or a customs union will require the approval of all EU Member States. Cross border trade is L65 B annually, a reduction of even a few percentage point will be damaging and the worst-case-prediction of a 20 percent reduction on some sectors would be devastating (Bell 2016).

**Brexit and the movement of peoples**

The status of the Northern Ireland-Republic of Ireland border is fraught with concerns in addition to trade, particularly relating to freedom of movement of persons. The border has suffered economically from the legacy of the Troubles (Bradley 2012, 194). With trade, these concerns are discussed in terms of Brexit portending a “soft” or “hard” border. A combination of the 1952 Ireland/UK Common Travel Area agreement, the creation of the Single Market in 1987, and the 1998 demilitarization of the border after implementation of the Good Friday Agreement meant that after June 2016, “the physical manifestation of the Irish border itself is hardly discernible and there is freedom of movement across it.” (Gormley-Heenan and Aughey 2017, 498). Particularly after the 2006 St. Andrews Agreement,[[12]](#footnote-12) the border was rarely discussed because nationalists lacked a credible strategy in the short-term to achieve unity and the Irish government has relinquished unification as a constitutional objective. Public opinion polls conducted in 2015 revealed that NI nationalists did not accord unity of pressing significance in the short-term. Fifty-two percent of Catholics backed the short-term option that allowed NI to remain part of the UK, while 57% hoped to see Ireland united in their lifetime (Gormley-Heenan and Aughey 2017, 502).

Approximately 30,000 workers cross the NI-RoI border daily to live and work and would be inconvenienced by the reinstitution of border checks. The majority nationalist Derry/Londonderry has suburbs that transcend the border. People cross the border carrying euros and pounds and pay in either currency on both sides of the frontier; ATMs in Derry dispense euros as well as pounds. There are steady cross-border transactions along the hinterland where, as Bell (2016) elaborates, cows graze, and rural communities and different passport holders reside.

Seven percent of NI’s workforce derives from the European Economic Area. If there are no border controls after Brexit, EU emigrants seeking work in the UK could enter via NI unchallenged. The migration policing organization Operation Gull monitors non-EU illegal immigration into Britain via NI (Tonge 2017, 8).

British Prime Minister Theresa May said from the outset that the UK aspires to a “seamless” or “frictionless border.” A UK White Paper listed maintenance of the Common Travel Area as one of the government’s twelve negotiating priorities. May’s letter triggering Article 50 with regard to Northern Ireland reads in part:

v. In particular, we must pay attention to the UK's unique relationship with the Republic of Ireland and the importance of the peace process in Northern Ireland. The Republic of Ireland is the only EU member state with a land border with the United Kingdom. We want to avoid a return to a hard border between our two countries, to be able to maintain the Common Travel Area between us, and to make sure that the UK's withdrawal from the EU does not harm the Republic of Ireland. We also have an important responsibility to make sure that nothing is done to jeopardise the peace process in Northern Ireland, and to continue to uphold the Belfast Agreement (BBC News 2017).

At one point, May called for a “trusted trade scheme” meaning that people and goods would move freely between the two countries (Walsh 2018). “Leave” supporters like Democratic Unionist MP Gavin Robinson (2016, 39) opine that a hard border is not a necessary outcome of Brexit because the “UK and the Republic of Ireland already have border arrangements of co-operation because we both lie outside of Schengen, so we both look after one another and co-operate quite closely outside of what is a unified European Union border process.” Polley and Hoey (2017, 7) concur, explaining that the RoI and the UK have extensive cooperation on immigration and other matters and that an “automated border clearance system … [makes] the need for disruptive customs checks redundant even where so-called ‘hard borders’ exist.”

Some unionists are concerned that if the island remains without a border and a border is established instead between the island and the UK, NI would effectively be returned to its quasi-quarantined status associated with the Troubles. In evidence presented before the UK House of Commons, then-Ulster Unionist Party Leader Mike Nesbitt (2016, 3-4) labeled the border question an “existential” threat to the UK. He reasoned that if the UK agrees to a seamless border on the island, the border then would then likely be Heathrow, Gatwick or other airports and/or ports.

Mutual RoI-UK membership and their commitment to the Single Market was an important element (“context”) wherein the NI-RoI border became increasingly less important. Pat Leahy (2016 quoted in Gormley-Heenan and Aughey 2017, 502) writes that further, the Good Friday peace process was “a slow but inexorable process of making the border less important,” but Brexit now has made the border important again. Legally, NI citizens may hold Irish and UK citizenship and this will not be affected by Brexit; anyone born on the island has the right to hold Irish and EU citizenship. Five months after the Brexit vote, 24,849 NI citizens had applied for an Irish passport, a 63% increase over the same period in 2015. Article 2 of Protocol No. 20 of the EU’s 2009 Lisbon Treaty confirms that Ireland and the UK “may continue to make arrangements between themselves relating to the movement of persons between their territories.” As a continuing EU member, Ireland may have to seek permission from the EU to retain its travel relationships with a post-Brexit Britain given that authorization for the arrangements was confirmed in an EU treaty. It is unlikely, however, that any EU Member State will challenge existing arrangements (Tonge 2017, 8).

The immigration issue is less salient in NI than the rest of the UK. Migrants represent a small but growing percentage of the population, with the largest numbers coming from Poland, Romania and Bulgaria, and others entering from Hungary, Lithuania, and Slovakia. (Polley and Hoey 2017, 34). The 2011 census reported that 45,331 persons in NI were born in another EU country excluding the RoI, and in 2012 there were approximately 900 migrant worker households (primarily Polish but also Portuguese, Lithuanian, and Latvian) on public housing rolls (Miller 2013, 103).

The hospitality, assisted living (social care), agriculture, and food processing industries are concerned that they will be unable to recruit enough employees should the free movement of workers end. Some farms and food processers rely on seasonal and low-cost labor that restrictions on immigration will impact negatively. NI policy makers argue that maintaining access to labor from abroad should be a high priority, and the NI Food and Drink Association has suggested that responsibility for setting regional migrant targets should be devolved. This is unlikely to happen given that immigration was a major issue in the referendum (Polley and Hoey 2017, 17-18, 31).

NI has not yet fully recovered from the 2008 recession which makes the region less attractive to incoming migrants. Unlike Scotland which needs highly skilled workers and supports inward migration, Brexit’s effects on NI’s population will not be very significant (Miller 2013, 103) That having been said, Brexit supporters contend that resuming control over the borders will allow immigration to be tailored to Britain and NI’s skills and other economic needs and social considerations. Inward migration poses challenges for providing public services, particularly health and education, and has been “linked to the rise in recorded racist attacks” (Stennett 2016, 18). Leave advocates explain that limiting numbers of incoming workers will provide the opportunity to ease long-term employment in NI. A 2016 NI Department of the Economy Labour Force Survey placed the rates of inactivity in NI at 21.5%. Remainers (including the Neven Economic Institute with offices in Dublin and Belfast) contend that inward migration has improved the performance of the NI workforce, including enhancing its skills, productivity, and reducing economic inactivity (Polley and Hoey 2017). Remainers point out that in addition to low-cost workers, NI firms rely on workers from the EU to fill skills gaps, and that access to the wider pool of EU skills may encourage foreign investors to choose NI (Stennett 2016, 24).

Where will the border lie---between NI and the RoI or between the entire island and the UK? What form will new border controls assume, if any? If a soft or electronic border is created between NI and the RoI, a hard border may be required between NI and the rest of the UK. Another way to think about this would be that the UK would confine its border controls to England, Scotland, and Wales which would leave NI in a more overtly “Irish context.” Nationalists would welcome this solution, however, unionists may find this unacceptable. An alternative solution might be that UK immigration border controls be shifted to Irish ports and airports in much the same manner that immigration clearance for entry into the United States is undertaken at the Dublin Airport and/or the Calais model where the UK partly funds immigrations arrangements with France. It must be conceded, however, that having UK immigration facilities in Ireland would be a much more politically sensitive (Tonge 2017, 8). Proposals to avoid difficulties at the border include a number of technological solutions such as the use of vehicular number plate recognition technology and drones (Walsh 2018). The RoI in its *Initial Contingency Framework* for Brexit wrote: “It should be noted that the customs regime between the EU and some other third countries does not…involve fixed border posts but a less disruptive mixture of electronic filing and random physical checks” (quoted in Powey and Hoey 2016, 26). However, Prime Minister May has admitted that technology cannot resolve all of these issues.

**Brexit and Foreign Direct Investment**

The primary question with regard to foreign direct investment is the extent to which NI’s attractiveness as a destination for FDI will be affected by its loss of access to the EU Single Market of 500 million consumers. A United Nations Conference on Trade and Development survey of 2,272 transnational corporations (TNCs) found “that the size of local market was the most important criterion determining the location of FDI in both the manufacturing and services sectors, and the third most important for the primary sector.” The economic uncertainties associated with Brexit have already heightened perceived risk, affecting domestic and global investment, particularly in sectors like agriculture and manufacturing that are closely associated with EU trade. Even before the referendum was held in the UK, an Ernst and Young FDI attractiveness survey reported that “31% of investors would either freeze or reduce investment until the result of the referendum was known.” (quoted in Stennett 2016, 14-15).

Much discussion has centered around whether the corporate tax rate of 12.5% planned for April 2018 will offset the negative effects of Brexit for NI.[[13]](#footnote-13) The NI government pressed the UK Treasury for the right to put in place this reduced corporate tax rate to make the region competitive with the RoI’s 12.5% corporate rate. However, Peter Bunding, the Northern Secretary of the Irish Congress of Trade Unions, pronounced it pointless to cut the corporate tax rate to 12.5% or even 10% “because the rivals down the road will still have access to the single market.” Jimmy Kelley, Unite’s regional secretary, commented:

Post-Brexit it’s unclear whether the beggar-thy-neighbor approach to winning tax haven status will even bring FDI to Northern Ireland. Will multinationals site investment in Northern Ireland where there is such uncertainty over future tariffs and access to the EU market, when there’s a low-tax EU state just 60 miles south? (quoted in O’Carroll and McDonald 2016).

However, while this area of taxation is a devolved issue, the corporate tax reduction may not materialize in the foreseeable future given that there is no government and budget in NI at this time.

Several factors deter DFI in NI and contribute to its relatively low economic performance compared to the rest of the UK and the RoI. It is a geographically peripheral region, and The Troubles provided a hostile environment for DFI for approximately thirty years. NI remains the poorest performing region of the UK in terms of Gross Value Added (GVA) growth. In 2016, GVA growth in NI was 1.4%, and in July 2017, PwC predicted a decrease to 1.2% in 2017. In November 2017, the UK government published its *Industrial Strategy* with ten “pillars” to stimulate investment, regional growth, and skills improvement. That same year, NI’s Department for the Economy outlined its own strategy in a document entitled *Economy 2030* for transforming NI into a “globally competitive economy that works for everyone.” Of course, without a government, this strategy cannot be agreed upon and progress made toward achieving the plan’s “five pillars”---boosting productivity and earning power; accelerating innovation and research; enhancing education, skills and employability; enhancing inclusivity and sustainable growth; succeeding in global markets; and building high-quality economic infrastructure.[[14]](#footnote-14)

FDI is a relatively ready source of increased capital, productivity and output, employment and possibly new technologies including management techniques and access to wider marketing networks (Birnie and Hitchens 1999, 139). Improving productivity is the key to increasing output, improving wages, and facilitating community cohesion, and while NI has long relied on public subsidies for economic sustainability, the domestic and global private sector must increasingly address these needs given that cuts in funding for local governments are expected to continue, and NI and the UK will suffer reduced growth as a consequence of Brexit. At the present time, only about one-third of economic activity in NI is generated by the private sector (Tynan 2016).

During The Troubles, NI received very little direct foreign investment, but since the signing of the Good Friday Agreement that situation has improved, but perhaps not as greatly as had been hoped. Most DFI has been focused in the Greater Belfast area but also to a lesser extent in Greater Derry/Londonderry rather than in more economically marginalized areas, and in the past some of the jobs were in sectors like call centers which pay lower than average wages. Over time manufacturing in NI has shifted from traditional industries like textiles and shipbuilding to more capital-intensive and high-technology industries, like services, engineering, and chemicals. The UK Treasury informs that the following strengths are incentives for DFI in NI:

* a relatively young population with high quality education and increasingly flexible and responsive skills training programs (by UK standards)
* competitive labor costs (i.e. below the UK average)
* 100% broadband coverage
* good transport links internally, with the RoI and the rest of the UK
* a low crime rate for most crimes compared to UK averages
* an attractive natural environment

Disincentives for DFI into the region include relatively low productivity rates, a weak private sector and corresponding strong dependence on public funding, and its peripheral location and rurality. Low productivity is linked to factors like high rates of economic inactivity and low productivity in sectors like agriculture and food processing (HM Treasury 2011, 7-8).

NI planning focuses on seizing opportunities in new markets associated with information and communication technologies and financial services. Global firms like Caterpillar, DuPont, Emerson Electric, Fujitsu, Northbrook Technology (a subsidiary of the US-based Allstate Company), Seagate PLC, and NAACO Industries have investments in NI, many with financial backing from the British government (InvestNI 2004).[[15]](#footnote-15) A project often cited as an example of a renaissance in economic development is the L400 million Victoria Square shopping and housing (apartment) development in Belfast City Centre, which features 70 domestic and global retail brands including an Apple Store, T.G.I Friday’s, and Urban Outfitters.[[16]](#footnote-16) Most NI indigenous firms are relatively small and there is significant reliance on FDI to provide high quality and quantity jobs and research and development. Global firms may also utilize less discriminatory hiring practices. Strong (2010, 536) reports that in 2010 every 100 jobs in foreign-owned manufacturing firms created 100 indigenous jobs and 10 indigenous manufacturing jobs (usually among suppliers to the foreign firms). Further, many indigenous entrepreneurial firms are launched by former employees of TNCs.[[17]](#footnote-17)

One must conclude that the loss of access to the EU Single Market and the several years of uncertainties associated with Brexit will greatly compound existing deterrents to FDI for NI. Ernst & Young write that “With varying exit dates remaining in play, it is almost impossible to make any investment decision or plan for the future.”[[18]](#footnote-18) While over the long-term improving workers’ education and skills and regional infrastructure and lowering corporate taxes may well offset some of the downsides of Brexit, NI will experience a downturn in FDI coming into the region. It should be reiterated that even in times of economic prosperity, FDI alone cannot constitute the basis for sustainable economic development in peripheral economies (Hamilton 1993, 210).

**Brexit and the loss of EU funding**

The loss of EU funding in the wake of Brexit is our final area of consideration for the political economy of NI. Given that elimination of conflict among its Member States figured prominently among the organization’s original objectives, the EU has focused special concern and devoted significant resources to conflict amelioration in NI. One might argue that the EU has designated NI as a special test for its ability to ensure peace within its borders. The EU created a Northern Ireland Task Force (NITF) after the re-establishment of power sharing in May 2007. Communicating with the European Parliament a year later, then-Commission President Jose Manuel Barroso wrote:

…the region bears the imprint of a period of conflict: a high dependence on the public sector, an inclination against risk-taking, a low level of entrepreneurship with low investment in research and innovation, a persistent negative image of the region to international investors although this is clearly now changing and a high proportion of the population seemingly detached from the world of work.

Barroso continued: the NI Task Force would focus “on helping the region to generate more growth and jobs, and in that way to create more economic opportunities for its people in order to underpin the peace process.” The NITF operated under the authority of the Commissioner for Regional Policy.

After devolution, a special European Policy Coordination Unit was established within the Office of the First and Deputy First Ministers (OFMDFM) and an Office for the NI Executive was established in Brussels in 2001. The OFMDFM produced a discussion paper entitled “Taking Our Place in Europe” in 2006, and since the establishment of the NITF in 2007 adopted annual and biannual European priorities strategy documents focused on improving the region’s economic competitiveness and creating employment opportunities. NI responded to a 2008 Commission report on the work of the NI Task Force by drawing up an action plan to include transnational and cross-border cooperation, networking (including a PEACE network and innovation networks with other European regions), energy efficiency and addressing climate change, the creation and maintenance of employment opportunities and developing job skills, and

investment in research and support for enterprises. The OFMDFM organizes an annual Opportunity Europe event in Belfast. Much of the attention to needs in NI can be attributed to the work of region’s three representatives in the European Parliament. Generally, NI MEPs were able to put aside their differences in that context and lobbied effectively to receive EU financial assistance (Phinnemore et al., 2012).

At present, the EU’s Northern Ireland Task Force is comprised of representatives from seventeen Directorates General devoted to sustainable socio-economic development.[[19]](#footnote-19) This is the first time that the Commission has formed such close relationships with a single region covering multiple key areas. The Commission reports that the informal contacts, exchange of information, and multiple meetings have established confidence between NI governmental officials and the Commission.

The table below provides details of EU funding to NI between 2007 and 2020.

|  |  |  |
| --- | --- | --- |
| **EU FUNDING TO NORTHERN IRELAND** | **2007-2013** | **2014-2020** |
| European Sustainable Competitiveness Programme | E307 million |  |
| Investment for Growth and Jobs Programme (European Rural Development Fund) |  | E308 million |
| European Social Fund Programme | E165.7 million | E205.2 million |
| INTERREG IVA[[20]](#footnote-20) | E224 million | E240.3 million |
| PEACE (III and IV) | E279 million | E229.1 million |
| European Fisheries Fund | E18 million | E23.5 million |
| Rural Development Programme (Pillar II) | E171 million | E228 million |
| CAP Direct Payment (Pillar I) Programme | E2,271 million | E2,299 million |

Sources: Miller 2013, 99; <http://www.eurolink-eu.net/eu-funding-2/> (last accessed 28 April 2019)

The first three PEACE programs totaled approximately E1.3 billion, and as noted above, the 4th in progress adds an additional E229 million. Under the two primary aims of fostering cohesion between communities involved in The Troubles and the border regions of Ireland, and promoting economic and social stability, the programs focused attention on shared education, helping children and young people, creating shared spaces and services, and promoting positive relations on the local level (Bell 2016). Thus, monies have been made available for various infrastructure projects, business, and political reconciliation projects. In addition to funding going directly to governmental programs, nearly 10 percent (e.g. in 2012 approximately L70.1 million) of the L749.9 million annual income of nongovernmental organizations in NI, derived from various EU funding programs.[[21]](#footnote-21) The various Peace programs are quite sophisticated and support “peace-building from below” strategies that promote cross-border, inter-cultural dialogue to foster acceptance of diversity and recognition of commonalities. Examples include supporting inter-cultural daycare centers and programs that engage in discussions of history and storytelling, and organizing cross-border, inter-cultural musical events and other leisure opportunities (Phinnemore et al., 2012). Civil society is an important employer in NI constituting approximately 4% of the total workforce. Loss of EU funding will result in higher unemployment, particularly among women given that workers in this sector are predominately women. Brexit will compromise sustainability of many voluntary organizations in EU-sponsored programs and networks (Miller 2013, 99-100).

The cross-border Special EU Programmes Body (SEUPB) in the RoI and the UK was created to administer and monitor implementation of multiple programs and sources of funding in NI, the border region of the Republic and western Scotland.[[22]](#footnote-22) Under the 2007-2013 EU funding program for NI, the SEUPB received and disbursed funds under two EU programs: [Interreg](https://en.wikipedia.org/wiki/Interreg) IVA (€224m) and Peace III (€279m). It may also compete for Interreg IVB and IVC funds. The SEUPB reports to the [EU Commission](https://en.wikipedia.org/wiki/European_Commission) and the governments of NI and the RoI.

On 25 June 2012, EU Regional Commissioner Johannes Hahn, accompanied by NI’s First and Deputy First Ministers ([Peter Robinson](https://en.wikipedia.org/wiki/Peter_Robinson_(Northern_Ireland_politician)) and [Martin McGuinness](https://en.wikipedia.org/wiki/Martin_McGuinness)) and the Irish Taoiseach ([Enda Kenny](https://en.wikipedia.org/wiki/Enda_Kenny)), opened the Peace Bridge, a cycle and foot bridge over the River Foyle in Derry/Londonderry. The bridge is intended to improve relations between the predominately unionist “[Waterside](https://en.wikipedia.org/wiki/Waterside,_Derry)” and the largely nationalist “Cityside” by improving access between these areas, as part of wider regeneration plans. The project was funded jointly by NI’s Departments for Social Development and the Environment, Community and Local Government, with matching funds of £14 million, from the [SEUPB](https://en.wikipedia.org/wiki/Special_EU_Programmes_Body) Peace III programme.

In January of the following year, Commissioner Hahn organized a Peace Conference in Brussels to recognize the progress made toward peace in Northern Ireland and to allow other parts of the world to learn from NI’s experience. He reported that actors from the Balkans, Colombia, Palestine, Russia, and South Korea were interested in learning from the NI peace process.

In its various reports, the EU touts as another example of regional and EU cooperation, a Smart Specialisation Strategy (S3)[[23]](#footnote-23) Conference convened in the Titanic Quarter in October 2013 by the NI Department of Enterprise, Trade and Investment, REGIO, and the S3 Platform of the Joint Research Centre in Seville. The idea for the conference originated with the Northern Ireland Task Force, reflecting its interest in integrating NI more closely into EU policy initiatives. Conferees included NI and Commission policy experts, representatives from several Ireland and UK regions, and Sweden.

Agriculture is the sector likely to suffer most from the loss of EU funding. Approximately 38,000 farmers and rural projects currently receive EU support in the form of payments from the Common Agricultural Policy. Between 2005-2014, NI received L2.5 billion from CAP Single Farm Payments, representing approximately 87% of NI farm income compared to the UK average of approximately 53%.

Many farmers rely on EU direct payments for viability and the loss of this funding could significantly reduce the number of farms, farmers, and farm production in NI, thus increasing rural unemployment and land dereliction. 2011 data inform that agriculture accounted for 1.1% of NI’s total Gross Value Added compared to .7% in overall UK GVA. That year, agriculture accounted for 3.3% of civil employment in NI compared to 1.2% of employment in the UK. Without some form of direct support, NI agriculture could decline as an economically viable sector similar to that experienced earlier in pig production. This could create a monocultural system in NI based upon the currently commercially viable dairy sector (Miller 2013, 101).

It should also be noted that many agricultural concerns, particularly food processing firms, rely heavily upon immigrant workers. Free movement of labor has been crucial to the growth of these businesses. Brexit may affect these businesses’ profitability and ability to develop further if access to labor is restricted. Absent Brexit, NI farmers had anticipated EU support to rise to L2.5 billion by 2020. In the wake of Brexit, if the NI farming sector loses access to EU subsidies and is subject to trade restrictions, the NI and/or UK governments will have to provide additional funding to replace EU subsidies, or the agri-food sector will have to be reformed to respond more directly to market forces perhaps with more targeted subsidies to ease the transformation. A Pricewaterhouse Coopers analyst (2017, 5) writes that post-Brexit, reform “is inevitable:”

The global trend is towards reducing subsidies to farmers, removing trade barriers and encouraging efficiency, productivity and an export focus. Within the EU, CAP payments have been decreasing as a share of the EU’s budget and now CAP accounts for 39% of its budget, down from 70% in the 1980s.

While the “confidence and supply” arrangement between the Democratic Unionist Party and the Conservatives will bring an additional L1 billion into the region, this will not fundamentally ameliorate the consequences of Brexit (PwC 2017, 5). The financial agreement provides for injections of L400 million over two years for infrastructure, with the L150 million York Street Interchange Project mentioned as a priority. The balance of the funds could help complete important infrastructure and connectivity projects like the A5 or A6. So, to summarize, since 1984, NI had benefitted from L11 billion of EU funding. Post-Brexit, NI is set to lose about L500 million a year in EU funding, the most of any UK region. It is unclear if and how the devolved government and the UK will replace this EU funding (O’Carroll and McDonald 2016).

**Conclusion**

Northern Ireland is likely to suffer significant negative economic consequences in the aftermath of the UK’s secession from the European Single Market. Already among the UK’s poorest regions, the NI economy entered the post-Good Friday Agreement era with a small manufacturing sector and uncommonly large services and public sectors. The most concerning aspect of Brexit for Northern Ireland is what it portends in terms of the possible imposition of tariffs on exports and imports and even more importantly nontariff barriers such as border controls, rules of origin, and technical barriers that may be erected between the region and the rest of the EU, particularly the RoI. In 2017, 56% of NI exports went to its European Union partners. These negative implications for trade are also related to possible impediments to freedom of movement of peoples---border issues have been at the forefront of disagreements between EU and UK negotiators.

Brexit will undoubtedly also translate into negative outcomes for DFI into the region. NI already suffers from rurality, peripherality and a reputation for large numbers of inactive workers. Even with the reduction of the corporate income tax to 12.5 percent in line with that of the RoI, loss of access the European Single Market and economic uncertainty will be devastating to NI’s prospects for bringing in DFI. Market size and growth have been identified as the single most important determinants of FDI (Agiormirgianakis et al. 2003, 19). As has already been noted, the degree of support and compensation from the central government to address NI shortfalls is uncertain despite promises having been made. The ability and willingness of London to compensate NI for its Brexit-related losses will ultimately depend upon Brexit’s consequences for the UK’s overall political economy.

It is not within the purview of this already speculative study, however, the ramifications of a downturn in economic wellbeing for political stability and peace in NI must be of salient concern---i.e. will Brexit’s potential relatively slowly undermining of economic wellbeing in NI contribute to a return to overt political strife? Just after the June referendum, a September 2016 BBC poll revealed that 52% surveyed in Northern Ireland opposed holding a referendum on Irish unity and 63% supported remaining a part of the UK (Stevenson 2017, 117). One would hope that twenty years after the Good Friday Agreement republicans and unionists would have recognized the futility of warfare and the benefits of peace, however, the peace in Northern Ireland is regarded by many as fragile. Just last month, there was rioting in Creggan, a housing estate in Londonderry/Derry, and journalist Lyre McKee was killed by a stray bullet.[[24]](#footnote-24) It is likely that Northern Ireland’s being forced to relinquish its EU membership without its consent and the symbolic importance if a “hard border” is re-installed are more important than a less immediate decline of trade, FDI, employment, and economic growth. However, the interaction of these three factors---the absence of consent, the re-installation of a hard border, and a downturn in economic wellbeing---could portend negative consequences for peace in Northern Ireland.

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1. Bradley (2015, 188) informs that in 2011-12 NI’s overall governmental deficit was L9.6 billion, significantly higher than the per capita UK average. At that time, the overall economy’s deficit was unclear because no comprehensive regional accounts were available in the UK except those pertaining to Scotland. NI’s fiscal deficit for 2015-16 was just over L10 billion, i.e. expenditures of almost L26 billion and revenues of L15.9 billion. (See <[https://ulstereconomix.com/2017/05/31/chart-of-the-month-ni-fiscal-deficit-of-over-10bn/> (last](https://ulstereconomix.com/2017/05/31/chart-of-the-month-ni-fiscal-deficit-of-over-10bn/%3e%20(last) accessed 1 May 2019). [↑](#footnote-ref-1)
2. The Great Recession in NI (as in the RoI) was characterized by a property bubble that burst. Prices in NI fell 44 percent, wiping out construction jobs. Overall unemployment peaked at 8 percent (roughly one-half of unemployment in the RoI), likely due to the fact that one-third of workers are employed in the public sector. Ten years after the crisis, Gross Value Added in NI remained 13 percent lower than its pre-crisis peak (*The Economist* 22 January 2015). [↑](#footnote-ref-2)
3. Two waves of regionalism have occurred since the end of World War II. The first began in the late 1950s and lasted until the late 1970s. The second wave or the “new regionalism” began in the mid-1980s (Mansfield and Milner 1999, 590, fn 2). [↑](#footnote-ref-3)
4. See, for example, Chapter 3 in Brown 1994 for an in-depth discussion of the factors influencing Chile’s withdrawal from the Andean Pact in 1976, but not its consequences. [↑](#footnote-ref-4)
5. A diverse array of analyses predict that Brexit will reduce the UK’s GDP between 0 and 10 percent, highlighting the uncertainty surrounding these outcomes. For example, in 2017 Economists for Free Trade predicted that leaving the EU would **enhance** the UK GDP by 2 percent but did not explain this conclusion. In contrast, others predict that if the UK crashes out of the EU and UK trade falls under World Trade Organization rules, the country’s GDP would be reduced from 5 to 10.3% (House of Commons 2018, 16). These contradictory predictions suggest that the analyses are ideologically driven to some extent. [↑](#footnote-ref-5)
6. Two foreign-owned manufacturers of transport equipment include Bombardier **(t**he world’s third largest aircraft manufacturer which employs around 5,000 people in Northern Ireland) and **Wrightbus** which manufactures buses for the Asia Pacific, the RoI, the United States and the UK. [↑](#footnote-ref-6)
7. It might be noted that North-South trade on the island is dominated by small, indigenous Irish firms that use NI as a stepping stone into export markets, and which are more labor intensive than the transnational corporations involved in global exporting (Bradley 2015, 188). [↑](#footnote-ref-7)
8. A 2012 study of Norway’s relationship with the EUfound that Norway as a member of the European Economic Area (EEA) had adopted 3/5 of the EU’s *acquis communautaire* without being able to participate in EU decision making. Switzerland is not a member of the EEA but has agreements guaranteeing its access to some areas of the Single Market. It also must accept EU legislation regarding the markets it wishes to access without being able to influence decision making with regards to the legislation. Both Norway and Switzerland must contribute to the EU’s structural and cohesion funds (O’Ceallaigh and Kilcourse 2012, 11).

   The EU-Canada Comprehensive Economic and Trade Agreement (CETA) entered into force provisionally on 21 September 2017. EU Member States’ legislatures must approve the agreement before it enters fully into effect. For details of the CETA agreement, see < <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1720>>, last accessed 30 April 2019. Seven years of negotiations were required to reach this agreement.

   [↑](#footnote-ref-8)
9. EU Council President Donald Tusk also said that the EU and the UK should also maintain close cooperation on fighting terrorism and international crime, defense and foreign affairs, and research and education (Zalan 2018b). [↑](#footnote-ref-9)
10. By most measures, London is the largest global center for [foreign exchange](https://www.investopedia.com/terms/f/foreign-exchange.asp) and bond trading, banking activities, and insurance services. The [London Stock Exchange](https://www.investopedia.com/terms/l/lse.asp) is the largest stock exchange in Europe. The London [bullion market](https://www.investopedia.com/terms/b/bullion-market.asp), managed by London Bullion Market Association, is the site of the world's largest volume of wholesale trading in gold and silver (Bajpai 2018).

    In March 2019, 275 financial firms were in the process of transferring US$1.2 trillion (E1.06 trillion) in funds and assets to other EU cities. Taking into account the approximately 5,000 staff moved or hired locally, the combined cost of the transfers is estimated at $4 billion (E3.6 billion). Banks transferred nearly $1.3 trillion (E923 billion, L800 billion) in assets, 10 percent of total banking assets. 90 percent of the bank relocations are to Frankfurt, the site of the European Central Bank. Dublin is the top destination for financial institutions like Goldman Sachs and Morgan Stanley (Rahn 2019). [↑](#footnote-ref-10)
11. See <<http://statewatch.org/news/2016/may/eu-uk-jha-fa-coop.pdf>> (last accessed 30 April 2019) for a discussion of the UK’s participation in EU home and justice affairs as well as security and defense policy. This discussion points out that the UK makes use of Europol capabilities almost as much as any other EU Member State (See p. 5). [↑](#footnote-ref-11)
12. The St. Andrews Agreement between Ireland, the UK, and NI’s major political parties resulted in the restoration of the NI Assembly, the formation of a new NI Executive, and Sinn Fein’s support for the Police Service of NI, NI courts, and the rule of law. [↑](#footnote-ref-12)
13. The 2015 Corporation Tax (Northern Ireland) Act allows for devolution of power to the Northern Ireland Assembly to set the rate of corporation tax on Small and Medium Enterprises where the firm’s employee time and costs fall largely in NI and to large companies’ profits attributable to NI trading. Thus, the rate applies to most trading activities, excluding oil and gas and most financial services (See <https://www.rossmartin.co.uk/sme-tax-news/2309-northern-ireland-corporation-tax>, last accessed 30 April 2019). [↑](#footnote-ref-13)
14. See <<https://www.economy-ni.gov.uk/sites/default/files/consultations/economy/industrial-strategy-ni-consultation-document.pdf>>, last accessed 30 April 2019. [↑](#footnote-ref-14)
15. NI did not have a stand-alone agency to pursue FDI until the Industrial Development Broad (IDB) was created in 1982. Early on, the IDB was criticized for failing to attract new industrial projects except for a few “show projects.” The IDB often attracted noncompetitive TNCs that could only compete with large grants. Some TNCs departed NI when the grant ended and other continued to require IBD support in a dependent relationship. In general, the IBD attracted fewer investments than agencies in the RoI, Scotland, and Wales (O’Hearn 2000, 187-188). NI’s ability to offer investment grants was significantly curtailed under EU rules changes in 2011 and 2013 (HM Treasury 2011). [↑](#footnote-ref-15)
16. On 24 November 2013, a car bomb detonated outside a Victoria Square car park; there were no injuries. [↑](#footnote-ref-16)
17. One must acknowledge, however, the dangers of relying too heavily on DFI. Governmental efforts to attract TNCs, particularly via grants and subsidies, may undermine the profitability and survivability of locally-owned firms. External firms may raise wages such that labor costs undermine local, unhealthy firms. However, it should be noted that local firms may rely on local and regional markets while TNCs firms may instead serve national or global markets, and thus domestic and global firms may not directly compete (Birnie and Hitchens 1999, 46).

    Additional theoretical critics of relying too heavily on FDI charge that the jobs created by FDI often last only a short time as companies either contract or close down production when the economic environment worsens or when the initial benefits of the governmental incentives package end. Foreign firms may mainly create low-quality jobs in terms of wages and skills. Few positive backward linkages may be developed with indigenous firms as foreign firms may utilize only a limited amount of local sourcing.

    TNCs in peripheral economies tend to undertake little research and development (R&D). Low R&D is associated with low-value-added production and increases foreign plants’ vulnerability to closure since they are not central to the overall performance of the TNC. Foreign firms tend to reinvest only a small portion of their profits in the host economy. TNCs may report profits in low tax jurisdictions via strategies like intra-firm trading and transfer pricing. TNCs may also impose environmental costs due to their relatively low level of loyalty to NI. Cases in Derry/Londonderry illustrate this latter problem (Hamilton 1993, 194-195). [↑](#footnote-ref-17)
18. See <[www.ey.com/ie/economicsfor](http://www.ey.com/ie/economicsfor)business> (last accessed 30 April 2019). [↑](#footnote-ref-18)
19. These DGs are: Agriculture, Climate Action, Competition Policy, Communication Networks and Technologies, Education and Culture, Energy, Enterprise, Environment, Health and Consumers, Home Affairs, Justice, Research and Development, Maritime Affairs and Fisheries, Taxation and Customs Union, Transport, and Regional and Urban Policy, as well as the Secretariat General (EU Commission 2018). [↑](#footnote-ref-19)
20. The INTERREG Programme promotes transnational and interregional cooperation and allocates funds jointly to Northern Ireland, the Republic of Ireland and Scotland. [↑](#footnote-ref-20)
21. This does not include the involvement of community and voluntary organizations in EU-funded programs led by a public sector body. [↑](#footnote-ref-21)
22. The SEUPB is one of six cross-border bodies established after the 1998 [Belfast Agreement](https://en.wikipedia.org/wiki/Belfast_Agreement), given statutory force by Section V of both the North/South Co-operation (Implementation Bodies), NI Order 1999, and the 1999 British-Irish Agreement Act. [↑](#footnote-ref-22)
23. See <<http://s3platform.jrc.ec.europa.eu/>> (last accessed 26 April 2019) for details of the S3 program. The program seeks to provide guidance material and good practice examples, inform strategic planning and policy making, facilitate peer reviews and mutual learning, provide relevant data, and train policy makers. [↑](#footnote-ref-23)
24. See <https://www.bbc.com/news/uk-northern-ireland-47985469> (last accessed 30 April 2019). [↑](#footnote-ref-24)