# Why we wouldn't want to trade Northern Ireland's tourism potential

Contact: Richard Ramsey
Chief Economist, Northern Ireland
02890 276354 or 07881 930955

Richard.ramsey@ulsterbankcm.com

www.ulsterbank.com/economics

***Article appears in Irish News Business Insight 28th February 2012***

Tough economic times during the early 1980s were highlighted with the recent TV screening of 80s box office hit *Trading Places* during which Billy Ray Valentine, played by Eddie Murphy, goes from begging on the street to successful commodities broker due to an elaborate bet that sees Louis Winthorpe III, played by Dan Ackroyd, trade places in the opposite direction.

In the tough economic times of today, there has been much talk about some of the things that Northern Ireland might be able to trade to achieve something desirable – for example a reduction in the Block Grant for devolving corporation tax setting powers. There has also been some talk about what economic characteristics we might wish, or not wish, to trade with other economies.

Indeed, during the Celtic Tiger period, Northern Ireland would quite happily have traded its entire economic performance with that of its nearest neighbour, the Republic of Ireland. The Republic's rapid expansion in inward investment; high value-added employment and overall economic prosperity were the envy of the world. The South's low 12.5% corporation tax rate, which was seen as so central to its achievements, has been copied by many economies, and others would like to follow. Furthermore, households and businesses here would have welcomed the euro zone's lower interest rates at the time. *(In hindsight, however, this would have made many of Northern Ireland's current economic problems all the worse.)*

In an about-face, following the credit crunch, recession and subsequent economic developments, Northern Ireland's overwhelming feeling towards the Republic of Ireland is now one of relief, rather than envy. Not only is Northern Ireland pleased it is not part of the euro zone, it is also fortunate that it doesn't share the sheer scale of the public finance, housing and labour market challenges facing the South. To date, the fiscal austerity applied in Northern Ireland has been mild in comparison to the painful tax hikes and public expenditure cuts doled out south of the border. This is despite the fact that Northern Ireland - albeit comparing a region to a sovereign state is not a like-for-like comparison - has an annual fiscal deficit to GDP ratio of almost four times that of its neighbour. Significantly, the Republic of Ireland's arrangement with the so called Troika comes with austere strings attached whilst Northern Ireland's annual fiscal subvention from Westminster is somewhat more flexible.

Looking at the labour market, the Republic of Ireland's unemployment rate currently stands at 14.2%, almost twice the headline rate in Northern Ireland *(7.2%)*. However, whilst the latter is frequently used to boast superior labour market performance, Northern Ireland's high levels of economic inactivity significantly distort the picture by placing otherwise unemployed onto a different register. Despite this statistical nuance, Northern Ireland would still not swap its current unemployment problem.

Similarly, on the housing front, we wouldn't exchange our challenges for those of our nearest neighbour. Both economies have experienced booms and busts with peak-to-trough falls in residential property prices around 50%. A key difference though is that Northern Ireland's boom, both in terms of house-building and house prices, was telescoped into a much shorter time period of around 2-3 years. As a result, a smaller proportion of home-owners have fallen victim to negative equity. Similarly, the overhang of unsold housing stock is relatively modest here compared to the south.

However, despite the South's undoubted problems at present, on closer inspection, there are aspects of our economic performance that we would happily trade. The level of inward investment remains the obvious example, alongside obtaining the favourable corporation tax rate. This was brought into sharp focus last week with the announcement that Paypal would create 1,000 jobs in Dundalk and that, HCL, which is announcing job losses here, is expanding in Kilkenny. Outside of investment, albeit linked, is the South's vastly superior export performance which is the main driver of the Republic of Ireland's economic recovery. A detailed analysis of Northern Ireland's official export figures highlights that whilst there have been some recent improvements, underlying performance has been poor. Indeed, we now export 16% less to the EU (outside of RoI and the UK) than we did 10 years ago.

Whilst insider trading of the illegal variety is central to the plot of *Trading Places*, insider trading of a different, legal kind is hampering Northern Ireland's manufacturing sales and export performance. The South has been able to achieve a considerable proportion of sales outside of the island of Ireland, but Northern Ireland firms have been concentrating their trade inside the island to a much greater extent. Over 60% of sales by our SMEs occur within these shores and over half of all SME exports are bound for the Republic of Ireland. The reliance on our nearest trading partner is even more stark when looking at firms with fewer than 50 employees. Almost three-quarters of their manufacturing sales are within the island. This exposure during the Celtic Tiger boom era provided a major boost to our local construction industry and manufacturers, but this over-concentration has proved a liability during leaner times.

During the Celtic Tiger boom period, Northern Ireland manufacturing firms saw sales to the Republic increase by 73% *(in real terms)* between 2001 and 2008. This was twice the growth rate achieved for overall exports. Meanwhile, large firms saw their sales to RoI more than double over the same period. Now, however, the collapse in that market has seen 80% of the exports sales growth obtained during the Celtic Tiger period lost, and the impact has been more noticeable on smaller firms. Clearly, our SMEs would happily trade places with their larger counterparts, whose exposure to the faster growing economies of the world, from Asia to North & South America, has left these firms less affected.

One major downside to Northern Ireland's proximity with the Celtic Tiger was that it there was little incentive for our SMEs to lift their horizons beyond these shores. After all, with demand in one of the world's fastest growing economies on your doorstep why look for trade outside Ireland? This has now changed with lack of demand in Ireland shifting firms to look to other markets, with the emphasis on exporting shifting to the BRIC economies. However, there has perhaps been an overemphasis on these markets from an SME perspective. For instance, local firms failed to significantly penetrate markets closer to home, particularly within the euro zone. Northern Ireland needs a detailed export strategy that goes beyond trade missions and focuses on small not large firms. Indeed, perhaps we should import export experts to write such a strategy. Furthermore, it should focus on maximising the potential of our largest market – Great Britain. This is particularly vital for our construction industry.

Another kind of 'insider trading' that will become prominent in the years ahead is all-island tourism, with the Republic of Ireland being the most important tourism market for Northern Ireland after GB. With major tourist events happening in Northern Ireland such as the Titanic centenary celebrations, followed by the Irish Open golf tournament in Portrush, and the Derry-Londonderry City of Culture and All-Ireland Fleadh in 2013, the prospects for visitor numbers from South of the border look somewhat brighter than for exporting the other way. Indeed, this is one area where we probably wouldn't want to trade places with the Republic. Whilst its tourism potential has arguably been largely exploited, in Northern Ireland there is the potential for significant tourism growth. We don't need insider information to realise that this is one of Northern Ireland's major economic opportunities.

*Richard Ramsey,*
*27th February 2012*