



Derry / Londonderry  
Belfast

# The Northern Ireland Productivity Challenge: Insight paper

## Productivity picture in Northern Ireland

Low productivity is central to Northern Ireland's persistently poor economic performance, and key to improving the prospects for growth and prosperity of the province. The Northern Irish economy, which was once well-known for shipbuilding and the linen industry, has experienced severe structural headwinds as those industries experienced decline and have now disappeared. While the regional economy remains more concentrated in agriculture, construction and manufacturing relative to the rest of the UK, it is also seeing some new growth in specific areas of services, including the business services sector and the knowledge economy.

Still the productivity problem in Northern Ireland has been persistent, and has performed at the bottom range of productivity levels relative

to other regions and devolved nations in the UK. The shortfall was present before the Great Recession of 2008/09, the troubles, and even the partition of Ireland. Given its location, Northern Ireland faces a distinct geographic challenge.

On the one hand, the province does not share a land border with the UK mainland – a matter that has become more challenging with the UK's exit from the EU in which Northern Ireland was granted a special status being still under intra-EU trade rules. On the other hand, Northern Ireland is the only part of the UK to share a land border with an EU member state, the Republic of Ireland.

While economic integration of both territories has advanced in recent decades, the vast productivity gap

between the two still suggests that Northern Ireland hasn't fully benefited from stronger linkages with Ireland or the EU so far. Northern Ireland's economy is challenged by important scale problems. It is the home to less than 2 million people, and accounts for just over 2% of the UK's Gross Domestic Product (GDP).

Belfast is the only city in the province with a population more than 100,000. The business demography is dominated by many small and medium-size enterprises, many of which are in the foundational economy rather than part of regional, national or international supply chains. Problems of peripherality are no longer simply geographic, but also reflect the need for a wider improvement in connectivity, including access to digital networks and knowledge.

All these figures are from ONS data

**2.1%**  
Share of UK  
GDP (2019)

**2.7%**  
UK total hours  
worked (2019)

**57%**  
Intermediate and  
high skilled 16-65  
population (2018)

**4.8%**  
Change in  
productivity between  
2008 and 2019

**81.8%**  
of UK labour  
productivity level  
(2019)

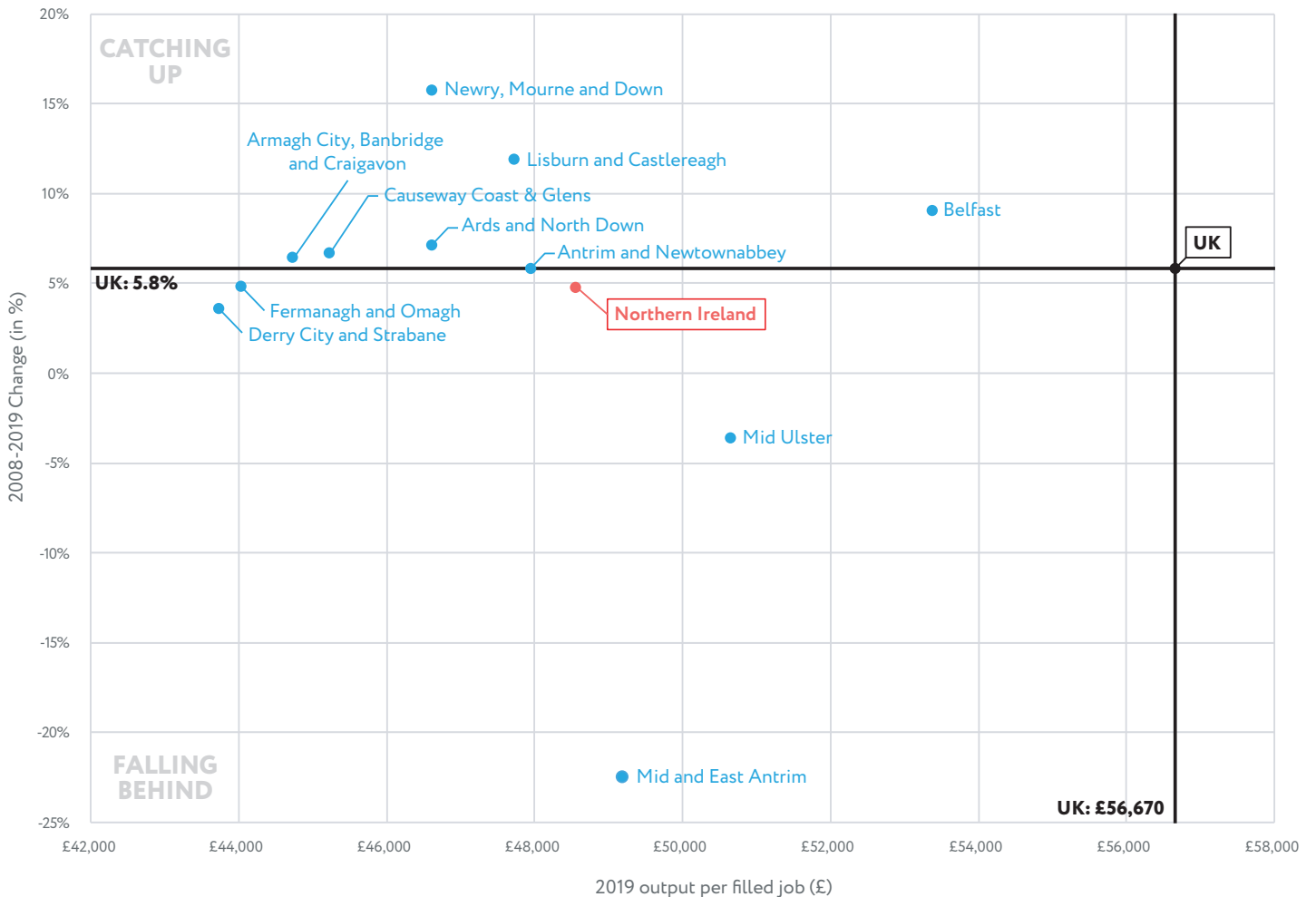
# Majority of the Northern Ireland sub-regions have been catching up relative to UK average productivity.

At 82% of the UK wide level of productivity (measured as output per hour), Northern Ireland is one of the poorest performing regions for productivity within the UK. Its productivity level is 75% of the EU-average level, and only around half that of the Republic of Ireland. Even removing the effect of foreign firms still sees the Republic's domestic sector equal the EU-average and significantly outperform Northern Ireland. Within Northern Ireland, productivity levels and growth rates are also

unevenly distributed. Looking at output per job which was on average 86% of the UK (rather than the 82% in terms of output per hour), Belfast clearly stands out at more than 10% above the province's average. This places Belfast behind only Dublin and the South West of the island of Ireland. Northern Ireland has also been doing relatively well on productivity levels, but it has seriously fallen behind in growth rates during the past decade. The performance of Mid and East Antrim is most striking: while performing well

above the average productivity levels of Northern Ireland until 2016, it has recently been severely affected by the departure of some large companies from the region, including JTI Gallaher and Michelin. The good news is that, despite two regions (Mid Ulster and Mid and East Antrim) pulling down the improvement in Northern Ireland's productivity performance, seven of the eleven regions were showing faster productivity growth than the UK average. However, they still have a very long way to get to the UK average.

Labour Productivity Levels (2019 in £) and Change (2008-2019, in %) for Northern Ireland



Note: for subregions in Northern Ireland estimates are only available for output per job rather than output per hour. Source: [Office of National Statistics](#), Subregional productivity: labour productivity indices by UK ITL2 and ITL3 subregions, 23 July 2021

## Primary Drivers and Bottlenecks

It is tempting to attribute part of Northern Ireland's productivity shortfall to its geographical location. However, there is little evidence that higher transportation costs are still a major constraint, even though the Northern Ireland protocol in the UK-EU Brexit agreement may raise overall costs of trade at least temporarily. However, there are concerns about the soft peripherality of Northern Ireland, being more remote relative to major technology and knowledge hubs and therefore less attractive for innovative firms. The soft peripherality issue is also an explanation for the region to be one of the least attractive places for R&D investment in the UK.

Over the decades the contribution of Northern Ireland's sector structure to the productivity gap has become

less important. Productivity gains in manufacturing, which accounts for 10.5% of employment in Northern Ireland versus 7.6% for the UK, have contributed positively to productivity growth. However, the number of high productivity plants has been small with a large long tail of inefficient plants dragging down overall productivity.

Even so, the Northern Irish economy is still characterised by a high concentration of low productivity sectors and the presence of a large foundational economy. As a result, the demand and supply for highly skilled labour is weak. As much as 16.3% of the province's population has no formal level of educational attainment, which is double the average for the UK. Furthermore, two thirds of Northern Ireland's population has no

tertiary (higher or further) education degree, which is again much higher than for the UK as a whole (51%) or the Republic of Ireland (48%). A brain drain from the region may have added to the low presence of highly skilled workers. There is evidence to suggest a managerial skills gap, which may be exacerbated by issues around culture, leadership, and ambition.

Finally, both public policy, and institutions and governance, may contribute to the productivity gap. For example, the economic strategy plans have a poor track record for improving Northern Ireland's economic performance and productivity, are often underfunded and lack long-term vision and commitment.

### Strengths

- Northern Ireland has a younger population relative to the UK average.
- Economic policy can be tailored to local conditions through the powers devolved to the Northern Ireland Executive.
- Most regions in Northern Ireland have shown faster productivity growth than the UK average

### Weaknesses

- Northern Ireland is one of the worst performing UK regions (productivity level is 75 percent of the EU-average level)
- High concentration of low productivity sectors
- Relatively poor educational attainment - 16.3% of the province's population has no formal level of qualification (double UK average)
- Evidence to suggest a managerial skills gap in Northern Ireland
- Poor internal transport infrastructure
- Lower rate of business start-ups than the UK average

### Opportunities

- Scope for policy to correct previous failures in areas of investment, human capital, and infrastructure
- Capitalise on Northern Irish heritage/brand when exporting
- Relatively young population of Northern Ireland – opportunity to address skills gap to the rest of the UK
- Opportunity to retain Northern Ireland graduates and stop the 'brain drain'

### Threats

- Impact of Brexit
- Political instability
- Skills gap in comparison to rest of UK and Republic of Ireland
- Continuation of 'brain drain' (almost one-third of graduates born in Northern Ireland subsequently living in Great Britain)

## Looking to the future

While Northern Ireland's productivity is affected by both structural and peripherality problems, neither mean the productivity shortfall is an inevitable outcome. The areas of investment, human capital, and infrastructure all display deficiencies, which suggests there is scope for policy to correct these failures.

Firstly, Northern Ireland's skills gap to the rest of the UK needs to be addressed, alongside ways to attract firms and industries which can take advantage of a more highly skilled workforce. Addressing this problem may be particularly important for attracting investment from elsewhere in the UK, the Republic of Ireland and overseas. Skills levels also need to be raised to strengthen the absorptive capacity of domestic firms to benefit from spill over effects from FDI.

Secondly, NI not only has a higher concentration of low productivity sectors, it also has a long tail of low productivity firms within sectors.

Addressing deficiencies in managerial quality can be an important driver of productivity improvements. In addition to improving management skills, stimulating "productive entrepreneurship" and higher levels of ambition should be important long-term goals and be integrated in the education system. This opportunity is all the greater given Northern Ireland's relatively young population.

Thirdly, Northern Ireland needs to fully use its powers to tailor economic policy through devolution. Today, the Assembly at Stormont has key policy powers relevant to productivity, including education and skills, infrastructure, and economic and enterprise policy.

Improving productivity is a feature of recent public policy, including both the Belfast City Region Deal and the Derry, Londonderry and Strabane City Region Deal, as well as the Department for the Economy's new strategic vision for the

local economy, '10x Economy: Northern Ireland's Decade of Innovation'

Digitalisation of the economy, the creation of knowledge economy, and the development of green technologies within manufacturing are key opportunities in those plans.

However, long-term and strategic commitment, coordination across various levels of government, and sustained funding for new policy initiatives are crucial preconditions for effective policies and stronger institutions.

Moreover, it will be of the greatest importance to stave off further political instability, both at a local level within the devolved institutions and in relation to the EU-UK Brexit strategy.

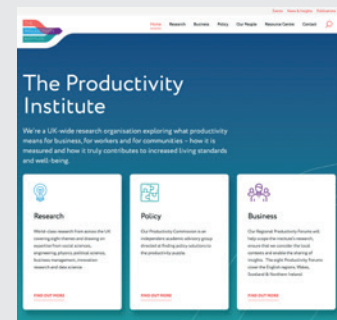
## The Productivity Institute

The Productivity Institute is a UK-wide five-year research organisation, which began in September 2020 and is funded by a £26 million grant from the Economic Social Research Council in the UK – the largest single grant in its history and supported by £6 million from partner institutions.

It explores what productivity means for business, for workers and for communities – how it is measured and how it truly contributes to increased living standards and well-being. Productivity is key to a more prosperous and equitable society.

We aim to pinpoint the causes of the stagnation in UK productivity and focus energies to laying the foundations for a new era of sustained and inclusive productivity growth, which will improve our material standard of living.

Our world-class research draws on expertise from social sciences, engineering, physics, political science, business management, innovation research and data science. Our research activities and outputs are developed in collaboration, and in some instances through co-production, with business and policy users.



For more information and insights, please visit our website at [www.productivity.ac.uk](http://www.productivity.ac.uk) where you can also sign up to receive our regular newsletter.