

# Still work to be done to ensure every region reaches its economic potential

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Globalisation has been the subject of many political and economic debates for several years and has contributed to two very significant trends over recent decades.

During this period, the global economy has become more balanced as many lower-income countries have caught up with wealthier nations, driven by significant investment in their manufacturing capacity and capability.

At the same time, imbalances within advanced economies have increased as off-shoring has hollowed out former industrial areas while high-value activities have concentrated in cities.

This contrast of global catch-up alongside local divergence frames the challenge we now face across the UK and Ireland. London is the centre of economic activity in the UK in the same way Dublin dominates the Irish economy, and even locally, Belfast tends to enjoy the greater share of business investment in Northern Ireland.

As a result of these trends, the Executive have identified delivering greater regional balance as a key priority. This is a complex area and indicators of economic activity do not always tell the same story.

By one common measure, economic output per head, Belfast is significantly higher than all other council areas and more than three times the level of the lowest-performing council.

In addition, unsurprisingly Belfast also has the highest paid jobs in the province, however, it is in the middle of the pack for both resident pay and household income.

This suggests that even though many of the better-paid jobs are in Belfast, those roles are often filled by people living outside Belfast. This reflects wider commuting patterns, where many people earn in the

urban core but spend their money closer to home, thus sharing earnings across a broader geographic area. This trend is likely to have accelerated in recent years with increased remote and hybrid working.

Taking an historical perspective, supporting greater regional development is not a new policy objective. For much of the post-war period, regional policy meant central government incentivising corporate investment in more deprived areas.

There are several examples of UK Government grants supporting inward investment in deprived areas of the country, with varying degrees of success.

This interventionist style was replaced in the 1980s with a 'place-neutral' approach which prioritised pro-business policies at a national level, allowing businesses to locate in areas which best met their needs. The belief was that the lower labour and land costs in more deprived areas would attract employers to those areas and raise living standards.

In general, both the 'top down' and 'place neutral' approaches were unsuccessful and regional imbalances persisted.

Urban areas typically attracted higher skilled talent, which attracted businesses offering career opportunities which then in turn attracted more talent and businesses creating a more diverse and successful economic eco-system. In economic terms this is known as the agglomeration effect.

Unfortunately, the reverse also occurs. Talent tends to leave deprived areas, businesses then find it difficult to attract high calibre staff and they either move or close. As a result, earnings in the local area falls creating greater deprivation and the downward cycle continues.

Northern Ireland has mirrored this evolution, with high-value tradeable services and knowledge-intensive companies tending to cluster in Belfast.

More recently inward investment activity has focused on these high value sectors which explains why Belfast benefited from 78% of new foreign direct investment jobs between 2015 and 2022.

Despite these headline figures, we must also acknowledge that some economic imbalance measures are moving in the right direction, where the gap between best and worst performing councils is narrowing.

For example, the gap between councils with the highest and lowest employment rate was 19 percentage points in 2017 but this has fallen to 10% in the most recent data.

Encouragingly, this narrowing has been driven by increased employment in poorer performing councils. Too often greater equality is achieved at the expense of better performing areas.

Furthermore, the same council does not perform best in every economic indicator. Belfast may have the highest economic output per capita, but it also has one of the highest levels of economic inactivity, thus highlighting that all areas have different strengths and challenges.

All that said, there is still a lot of work to be done to ensure that every region reaches its economic potential. Some practical steps which can be taken include having the right transport, technology, power and water/wastewater infrastructure in place.

It may seem obvious but making it easy for people to gain the skills and qualifications needed by local employers allowing young people to have fulfilling careers in their local area. These policies should be central to any economic plan.

Successful areas also tend to play to their strengths and therefore supporting innovation and technology adoption in the sectors in which each area has a genuine advantage is the most effective approach to adopt. Not every town can have its own software or cyber security cluster, but there is a lot of success to go around.

We have life and health sciences in Coleraine, creative industries in Derry and

Strabane, advanced manufacturing in Mid-Ulster and agri-food in Armagh.

It is also important to recognise that achieving regional balance is not about pulling activity out of Belfast but giving every area the ability to maximise and deliver on their own potential.

The local economy will work better for more people when high-value jobs in larger urban centres are complemented by strong, connected places across the region so more families can access good work without moving, and more firms can grow in their current location.

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### About UUEPC

UUEPC is an independent economic research centre focused on producing evidence based research to inform policy development and implementation. It engages with all organisations that have an interest in enhancing the Northern Ireland economy. The UUEPC's work is relevant to government, business and the wider public with the aim of engaging those who may previously have been disengaged from economic debate.

