21.

Confederation House
Kildare Street, Dublin 2
Telephone 779801
Telex 24711
T'grams Confindus Dublin

PRESS RELEASE

The Confederation of Irish Industry

Registered in Dublin
Registered No. 8706

Speech by Liam Connellan, Director General, Confederation of Irish Industry to German/Irish Chamber of Commerce & Industry at the Berkeley Court Hotel on Thursday, 24th May 1984 at 1 p.m.

INDUSTRY IN IRELAND - AN INTERNATIONAL COMPARISON

Ireland is a modern industrial economy. It operates in a free trade area with economies comprising almost 300 million people. Its external trade is in approximate balance. Industry in Ireland accounts for a similar proportion of national output to that in the European Community as a whole.

The relative output of the Irish economy is indicated by comparing gross domestic product per capita with other countries. In 1982, GDP per capita in Ireland was 42% lower than in the EEC. This lower output per capita shows why Irish living standards are well below those of our European counterparts.

However, more than half the divergence in output can be explained by structural factors. For example, Ireland has a higher dependency ratio and a lower proportion of the work force in paid employment than other European countries; Ireland has twice as high a proportion of the work force engaged in agriculture and low productivity manufacturing sectors, where output per person is, typically, only two thirds of average manufacturing levels; a further element of the gap in the value of output per person is accounted for by the different purchasing power of money, since high income economies tend to have high charges for labour intensive services. Taken together, these structural factors account for about half the gap in the value of output per person in Ireland and the Community average. The other half is determined by the extent of the average gap in productivity levels for similar activities, due to a combination of differences in marketing, design, work organisation, equipment and effort.

Structural differences can be altered, primarily, by encouraging the growth of higher productivity activities. Our high dependency ratio can most effectively be altered by increasing the number of job opportunities in the economy, through obtaining more orders for Irish manufacturers, processors, and providers of internationally traded services.

Export Performance

Irish economic growth depends more than ever on our capacity to export. Proportionately, Ireland is the third largest exporter in the EEC after Belgium and the Netherlands. In the 1960s, Irish exports accounted for 30% of national output. In the 1970s, exports accounted for 42% of national output. Last year, they accounted for 53% of national output and this year will account for almost 60%.

The process of geographical diversification of Irish exports has continued. Over the last five years the share of Irish exports sold to Britain and Northern Ireland has dropped from 47% to 35%, while the share taken by other EEC countries, North America, the Middle East and Japan has increased. Exports to Continental EEC countries now exceed our exports to Britain.

Germany is our second largest export market and the third largest foreign investor in Ireland. Ten years ago, Irish exports to Britain exceeded those to Germany by over seven times. In the first quarter of 1984, our sales to Britain exceeded those to Germany by less than three times.

The nature of our exports has also changed radically. In 1983, the top five Irish exports were computer equipment; chemicals; meat; dairy products; and electrical machinery, in that order. These five product groups account for almost half of all Irish exports. However, they have very different growth rates. New technology exports of computers and chemicals are expanding much more rapidly than food exports.

In 1983, Irish exports and imports were approaching balance. Over the last five years we have become nett exporters of new technology products; there has been a deterioration in the trade balance for food, drink and tobacco products; and a slight improvement in relation to traditional products, probably due, primarily, to the impact of deflationary measures on volume of consumer demand.

There is a close relationship between the growth in the total volume of exports and total employment within the economy. About 60% of the £12,000 million sales value of manufacturing industry output is now exported. As exports assume an even more important role in the economy - as they do in Belgium and the Netherlands - the impact of export performance on total employment will become greater still.

Higher exports can be achieved by placing a larger number of export marketing executives in foreign markets. The Export Marketing Executive Recruitment scheme, which proved so successful in encouraging the recruitment of additional staff, has been restricted this year. This is unfortunate, since I believe that the scheme is self financing as each export executive, on average, creates jobs for about seven people in the Irish economy. We must learn from the example of the Japanese, who are far more successful in marketing Japanese goods on the European market than Europeans are in selling to the Japanese market, because they have over ten times more marketing staff located in Europe.

Expanding Manufacturing Output

There is considerable scope for expanding the output of Irish manufacturing firms. Ireland produces less than 1% of the products purchased in Europe. The recent growth in output has been concentrated on new technology sectors such as electronics, chemicals and pharmaceuticals. The output of these industries in Ireland has accounted for all of the 7% growth in manufacturing last year.

New technology products account for a higher proportion of exports in Ireland than in any other EEC country. Firms manufacturing these products are in the process of deepening their roots in this country.

Ireland has the potential to exploit the new technology industries which have set up in this country in recent years. The volume of output of these industries is growing by between 15% and 20% per annum. They now account for one fifth of manufacturing employment, half of all graduate recruitment; and half of the research and development work carried out by industry.

These fast growing industries currently purchase almost £100 million worth of components which could, potentially, be made in Ireland.

In addition, about 150 computer software companies, specialising in developing new computer applications, have been set up throughout Ireland over the last decade. This industry is growing by about 30% per annum and is likely to continue doing so.

There are also very great opportunities for expanding the output of traditional industries. Last week, the Government issued a report, indicating the feasibility of replacing up to £200 million worth of food imports. Every £1 million of additional food production creates, at least, 100 jobs in the Irish economy.

Furthermore, about seven out of ten items of clothing worn in Ireland are imported, compared with three out of ten items in Britain. Clothing imports amounted to £300 million last year.

There is need for a much greater recognition throughout the economy of the value of producing more goods and, as Dean Swift said two and half centuries ago, making "two ears of corn and two blades of grass to grow upon a spot where only one grew before".

It is encouraging, therefore, that over 100 previously unemployed people, each week, are now setting up their own small businesses under the Enterprise Allowance Scheme, of whom 20% are involved in producing goods.

The highest priority must be given to stimulating the formation and growth of productive enterprises and rewarding people who are prepared to take risks. There are plenty of opportunities. The only question is whether we have the motivation and ability to exploit them economically.

Cost Competitiveness

Cost competitiveness is a key determinant of the volume of orders obtained by Irish manufacturing firms, particularly in price sensitive industries which tend to be labour intensive. In the first five years of membership of the EEC, Irish currency adjusted costs evolved favourably compared with our main trading partners, and this evolution contributed significantly to rapid industrial growth and a low rate of unemployment towards the end of the decade.

However, over the last five years the reverse has been the case. Irish costs grew much faster than those of our main trading partners. An EEC report, published last week, shows that, after allowing for currency adjustments, relative costs in the Irish economy grew 13% faster than those of our 19 main trading partners. At the same time, the relative costs of many of our competitors were falling by amounts varying from 10% to 19%. It is a hollow consolation to point out that unit manufacturing costs remained broadly in line with competing countries, since this could only be achieved by major closures and contractions. Furthermore, the rapid escalation of Irish costs has resulted in the prices of essential services, such as electricity, post and telecommunications, reaching levels which are far higher than those of our international competitors, to the detriment of firms in the exposed sectors of the economy.

I have no doubt that had Irish costs been contained to the rate of increase of our main trading partners, hundreds of closures and contractions would have been avoided, and tens of thousands more people would be at work today.

CONCLUSION

The rapidly changing structure of the Irish economy and the rising demand for industrial products offers the potential to achieve a much faster growth of output and employment.

This will only be achieved if

a) Irish domestic inflation is contained at or below the level of our main trading partners.

b) There is a major increase in resources allocated by industry and Government in favour of export marketing so that Irish products will be continually adapted to the changing needs of customers.

c) There is a major increase in the number of people who can be encouraged to set up production units, for exportable products and services or to replace imports.

Over the last five years, the gap between Irish output per capita, and that of the rest of the Community has narrowed by about one fifth but this has been achieved at the expense of employment in sectors of the economy exposed to international trade, and at a high cost in foreign borrowing.

Any further progress towards closing the gap must be achieved by increasing productive employment to meet the myriad of demands and opportunities which exist at home and abroad.

END