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Ireland in the New Europe - A Business Perspective

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Introduction

In this paper I wish to analyse what impact these changes are having and will have on the Irish economy , on industry, and on the prospects for employment.

Let me begin by looking at our experience within the European Community over the last decade. Ireland has been one of the fastest growing economies. It is worth noting that the fast growing economies have been on the periphery while those showing the slowest growth include Belgium and the Netherlands, who are in the central core. Germany, France and Britain have shown average growth rates.

Thus over the last decade economic forces have not acted in a centrifugal manner pulling economic activity to the centre, but in a centripetal manner dispersing it to the periphery although the development gap between member states remains wide.

This pattern is underlined by the progress made in reducing the gap in GDP per employee between Ireland and the EC average. Ireland has shown a substantial improvement while the position of Denmark has shown a deterioration. Employment comprises everyone employed in industry, services and agriculture. Thus while output per employee in individual sectors of Irish industry often exceeds the European average, our average performance is depressed by the substantial numbers remaining in low productivity agricultural employment who are surviving on subsistence incomes. Nevertheless, substantial progress has been made, and a continuation of the trend of the last decade would bring Ireland fully up to the EC average in GDP per employee by the end of this decade. Indeed, it seems possible that Ireland could surpass British output per employee by 1995.

However, these figures relate only to the number of people in employment. Ireland continues to have one of the highest dependency ratios in Europe comprising a relatively small proportion of women in paid employment, a large number of young people in education, and a high percentage of unemployed.Only the Netherlands among the more highly developed European countries , has similarly low labour force participation rate. As a result, Irish output per capita is well below the EC average, but has improved substantially from 64% of the Community average in 1985 to an expected 70% this year. Today about one-sixth of the population of the present EC have lower incomes per capita than the Irish but on current trends this should increase to about one-quarter by the end of the decade.

The large number of young people in our population is a strength on which to build. When one examines the projected age structure of the European population by the year 2000 the youngest age structures will be in Ireland, Portugal, Southern Spain, Northern France and Southern Italy.A youthful age structure has many advantages. Young people are generally better educated, more dynamic, more open to new ideas,and more innovative than older people. By educating our young people we can ensure that they will not be unemployed in the new Europe. Some 150 years ago Thomas Davis coined the slogan from different circumstances "Educate that you may be free". Today we can adapt that slogan with particular reference to opening up opportunities for innovation, creativity and employment. For example, the likelihood of a university graduate being unemployed is very low, while the likelihood of a young person who leaves school before the end of the junior secondary cycle being unemployed is very high. The proportion of young Irish people in full-time education and training still lags well behind the proportions in countries such as Germany, the Netherlands and Belgium. Yet the cost of maintaining a young person in second level education is well below the cost of paying unemployment benefit.

But we must not only educate to higher levels, we must educate for the requirements of the new Europe. This implies recognition that our everyday language, English, while still the main international language of commerce, is spoken as such by less than 20% of the people within the European Community. To-day over 70% of our Leaving Certificate students study a modern Continental language. While French has been the dominant language, German is increasing in popularity.

TRADE

Over the last decade Irish exports to mainland Europe have expanded sharply. Ireland has become a specialized supplier of goods to the total European market. Almost ninety per cent of all the goods we produce are sold in Europe. One quarter are sold on the island of Ireland, a further quarter in Britain and 40% on mainland Europe. Since more than 80% of the total purchasing power of the European Community is on the Continental mainland, it is inevitable that the proportion of Irish output sold there will increase. But this will not be passive development. It will happen because we in Irish industry avail of the opportunities of open access to larger and more rapidly expanding markets. The recent addition of Eastern Germany increases the opportunities for our computer, pharmaceutical, machinery, and food manufacturers to expand their sales on the German market. The further integration of economies such as Hungary, Czechoslovakia and Poland will have a similar impact.

The completion of the Single Market in the European Community will also result in a single market on the island of Ireland for the first time in living memory. The opportunity for increasing trade between the Republic and Northern Ireland is very substantial. Manufacturers in the Republic sell only a quarter as much in Northern Ireland as they do in the Republic when on the basis of the relative populations they should be able to see half as much. The comparisons for Northern manufacturers are even more dramatic. Northern Ireland manufacturers sell only a third as much in the Republic as they do in Northern Ireland although the population of the Republic is twice as great. If similar penetration of market could be achieved by each part of the island in the other part, this would result in increased business for Irish manufacturers, North and South, of £3 billion and at least 75,000 additional jobs on the island. A comparison with Denmark underlines the potential.

In the welter of political wrangling, we may have lost sight of the practical economic opportunities. This year the recently established Joint CII/CBI Northern Ireland Council has met on two occasions, and set as one of its tasks the promotion of two-way trade for mutual benefit. More trade, substituting for imports, will result in greater output and employment. There is another aspect of the New Europe. Larger manufacturers on this island will almost all be specialized producers for the large European market. The thousands of small and medium-sized enterprises in Northern Ireland and the Republic, must provide a supportive infrastructure in components and services for their larger counterparts.

TOURISM

Tourism is also following the path charted by merchandise exports a decade earlier. Last year for the first time more tourists visited Ireland from Continental Europe than from the United States. I believe that the proportion of our tourist revenue coming from Continental Europe will continue to grow sharply over the next decade. Tourism is another part of the process of integrating the Irish economy with the Continent. The increased flow of tourists challenges us to develop skills of effective communication with our visitors in their own languages, and to give them a better appreciation of our tradition and culture.

INVESTMENT

A similar trend is evident in relation to investment both into and out of Ireland. Investment abroad is frequently necessary in order to obtain market share and in order to support exports of products and services from this country. An increasing proportion of this investment is made on Continental Europe although the US and Britain still take the lion's share.

Inward investment shows a different pattern. For many countries such as the United States and Japan, Ireland is a gateway to the European Community. Last year most of the inward investment came from these countries who set up manufacturing or service companies; or acquired companies in Ireland in order to supply the European market. Investment has become internationally mobile in the same way as trade in goods and services. While firms from abroad will seek competitive advantages in investing in this country for the manufacture of specialized goods and services, many Irish firms find it necessary to expand abroad.

One main concern must be to ensure that there is a sufficient net inflow of investment to maintain an average industrial growth rate of 10% per annum over the next decade compared with about 7% during the 1980s. Irish industrial policy must be focussed towards this end.

INDUSTRIAL STRUCTURE

There has been substantial change in the structure of Irish industry over the last decade. This has come about primarily because of the nature of inward investment, and the process of adjustment to high-value low-volume and knowledge-intensive industries where transport costs are low and educational requirement is high. These industries have been the main contributors to the more rapid growth of industrial and economic output in Ireland than in the rest of Europe. The high proportion of manufacturing output in the new technology sector which has shown a long-term growth trend of about 15% per annum augurs well for the continued rapid expansion of Irish industrial output.

The food industry has gone through major changes over the last decade and will continue to do so as "real" food prices in Europe fall. It must be our aim to ensure that Ireland can make the most of the advantage of producing meat, milk and fish products in a clean environment. Agricultural production in Ireland has remained highly seasonal with the result that we add only 3% value to the basic materials compared with 15% added in many Continental countries. Measures to reduce seasonality associated with the current reform of the CAP could result in £200 m. further added value in Ireland, and the creation of 10,000 jobs.

It is worth noting that the level of order books of Irish industry has closely matched that for European industry as a whole since 1983. These orders are for established industry and do not take account of the additional capacity brought on-stream by new inward investment. However, the chart does demonstrate clearly the close integration of the Irish economy within the broader European economy.and that established industrial firms have succeeded and are succeeding in keeping pace with their counterparts throughout the European Community.

EMPLOYMENT

Over the last four years employment in the Irish economy has growth as rapidly as in the rest of Europe. Today there are more people employed in the business sectors of the economy outside agriculture than at any time in our history. Business employment is subject to competitive forces. It must be dynamic and adaptive or it will be forced to contract. The relative youth of the Irish population is a major advantage in ensuring that this continuing process of adaptation will continue.

But we must beat the problem of high unemployment. I have already pointed to the correlation between lack of education and unemployment. As a first step I believe that substantial progress can be made in reducing unemployment by achieving higher rates of participation in relevant second-level education, and in training programmes for certified qualifications. In addition, measures to increase participation rates in education and training for qualifications, and reduced seasonality in agribusiness should be combined with activities such as more intensive trading between Northern Ireland and the Republic; promotion of "Start your Own Business" programmes; removal of social welfare and tax disincentives to taking up employment; and the promotion of Ireland as an International Centre for the Education of Foreign Students.

The structure of unemployment in Ireland is strongly biased towards married people with families. This is partly because young people are more mobile and are often better educated. But it is also influenced by the design of the income tax and social welfare systems. It is estimated that 5% of the total workforce, particularly those with families, would lose money by entering employment. I am not saying that social welfare payments should be reduced. But the income tax allowance and Family Income Supplement available for people in low paid employment are inadequate to compensate adequately those in employment. Thus in 1990 a married person with four children would have gained no financial advantage in accepting a job at £5,000 or £10,000 per year. The changes made by the Minister for Finance in this years Budget went some way to redressing this anomaly. Changes of similar magnitude will be necessary over each of the next two years to provide an adequate incentive. I would hope that the process will be continued until the stage is reached where no one is ever penalized because they are in employment. I expect that the moves already taken will have favourable impact on the employment of married people with children this year.

We must recognise too the changes which are taking place in the job market. For example, demand for computer staff as measured from job advertisements, in the second half of last year increased by 61% compared with a year earlier. There are now more advertisements for computer staff than there are for people having with legal qualifications or craft skills. The computer services industry is seriously concerned about a potential short-fall in the number of computer staff available. On the other hand, the demand for office staff has fallen by 23%. We are seeing a technological upgrading of qualifications. It is vital that our education and training systems are responsive to these changes.

It is worth noting the substantial change which has recently taken place in the destination of young Irish graduates seeking work experience abroad. At least half of this migration is voluntary. I welcome the decisions of so many of our young people to gain experience of working on Continental Europe in preparation for their return to Ireland to contribute to the development of this economy. Between 1987 and 1990 the proportion of young Irish graduate migrants entering employment in Continental Europe increased from 11% to 18%. I would like to see this percentage increased to reflect the importance of the Continent in our trade.

The quantity of technological manpower in the economy influences the pace at which Ireland can adapt to new developments. We still have fewer scientists and engineers per thousand of population than most of the other member states. The demand for engineering manpower has increased by almost 80% over the last five years while the number of engineers graduating has gone up by only 10%. It is necessary to substantially increase the number of engineers, scientists and computer specialists graduating annually. In order to encourage this development, member firms of the Confederation last year agreed, in conjunction with the Irish American Partnership, to fund 40 Masters research projects in science and technology conducted by young scientists and engineers at Irish universities on projects directly related to the sponsoring firm. This was the largest privately-funded Masters Scholarship Programme in the history of the State, and is being repeated this year.

TREND TOWARDS INTEGRATION

Let us now bring together the various trends towards the integration of the Irish economy with that of the Continental mainland.

The exports of goods have led the way and mainland Europe now accounts for almost half total exports. Even this proportion is likely to increase to about 60% by the end of the decade. About 30% of our imports are sourced on the Continent. This proportion will increase as Irish purchasing managers gain greater familiarity with the range of products available, the business culture and languages of producers in these countries. Inward investment comes next with mainland Europe accounting for 28% of all investment projects whether greenfield investments or acquisitions from abroad in 1990. This was followed by tourism receipts from mainland Europe which accounted for 25% of total tourism revenue last year. Economic integration is further enhanced through the investment by Irish companies on the Continent which now accounts for 19% of Irish outward investment. Finally, about 15% of our new graduates migrating are now going to Continental Europe annually for training and work experience.

We should not be satisfied until the Continental mainland accounts for at least 50% of activity under each of these headings. They are all inter-related and success in one area stimulates activity in others.

TRANSPORT INFRASTRUCTURE

It is estimated that transport accounts for 9% of the cost of Irish goods delivered to our customers in the heart of Europe compared with about 5% for firms located in the European mainland. We must overcome the transport disadvantage by having the most efficient and cost effective system possible. We must not be daunted by the task. At present we can reach more than 200 million people, including destinations as far away as Berlin, Munich and Milan, within two day's delivery by truck assuming that there are no delays en route. A recent report by the European Round Table of Industrialists demonstrated that it is possible to travel the 2000 km from Tucson, Arizona to Memphis, Tenessee in 33 hrs but that it requires 55 hrs to travel the same distance by truck from Antwerp to Rome.It is of fundamental importance that we in Ireland achieve a proportionate improvement. I estimate that if the necessary investment in infrastructure were undertaken including faster ships and improved port facilities, computerised processing of documents, combined with more favourable EC policies, it would be possible to improve overall transit times by at least 20%. This would give access to markets in Austria, Switzerland and Poland within two days. More importantly, it would mean that Irish industrialists could service the main Continental cities much faster thus making Irish goods more competitive.

As industrialists we are interested in the efficiency of the direct routes to Britain whether on the Northern Corridor, the Central Corridor or the Southern Corridor; the quality of the road and rail system across Britain and the quality of port facilities for direct shipment to the Continent. I am glad to report that the second meeting of the Joint CII/CBI Council agreed that priority should be given to the development of six ports on the island. Let the modes of transport compete to provide an ever more efficient service to Irish industry.

It is essential that the European Commission should take the same interest in encouraging the provision of shipping and aircraft from an island member state such as Ireland as it does in the construction of roads, tunnels and bridges on mainland Europe. All aspects of the Irish transport network whether road, rail, shipping, and air, should be completely integrated with that of the rest of the Community, and be of similar quality. Much work remains to be done in this area.

ECONOMIC DEVELOPMENT & REGIONAL POLICY

The Irish economy has succeeded in narrowing the development gap with the rest of Europe over the last decade but there is still a considerable distance to go. The primary responsibility lies with ourselves. The Government must continue to implement sound economic policies which are administered efficiently, and to create the conditions for a competitive business environment.

The provision of funds from within the Irish economy, inward investment from abroad, and EC transfers will each play a very important role in improving the productive capacity of the economy. It is likely that developments in Eastern Germany will demonstrate over the next decade that the gap in productive capacity with the rest of the Federal Republic can be closed over a short period.

However, the Single European Act requires that all actions of the Community must take into account the requirements of economic and social cohesion. This means that the rate of expansion of less developed regions such as Ireland is influenced by much broader Community affairs than the provision of Structural Funds. For example:

a) The Community must get away from a situation where highly developed member states are spending more per capita on industrial incentives than the less developed regions spend or can afford. This is merely bidding up the whole incentive process across the European Community and reducing investment opportunities in the less developed regions.

b) Most of the money which the Community is spending on research and development programmes is concentrated in the more highly developed member states. In other words, Community research and development policy is biased against the needs of the less developed regions. The requirements of the Single European Act state that the emphasis should be the other way around.

c) The Commission has developed a paper on trans-European networks in order to accelerate integration and to remove congestion in areas such as transport, telecommunications and energy. Unfortunately, the report concentrates on the removal of bottlenecks in the highly developed regions and ignores the development of more efficient systems in the less developed regions which would both assist the development of these regions and reduce congestion in the central areas.

CONCLUSION

Ireland has integrated its economy substantially with the economy of the European Community over the last decade. The process is likely to become both broader and deeper over the next decade. The central role of Germany, France and the Benelux countries requires that we apply greater efforts to increasing the economic personal and cultural links with each of these member states. Our economy has been one of the fastest growing in Europe over the last ten years. It is not beyond our potential to make it the fastest growing economy in the new Europe. We have a modern industrial structure biased towards fast growing industries; we have well diversified trade. We have a youthful, innovative and dynamic workforce. We have a good education system. We have got rid of all the trappings of protectionism. Our outlook is international. We have adapted to the disciplines of the European Monetary System and can also adapt to those of the Single Market and Economic and Monetary Union. We account for only 1% of total European output. The small scale of our economy offers the opportunity to adapt our production to the faster growing niche markets. I believe that the New Europe offers enormous possibilities for expansion. Let us take on the task with confidence and vision.