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EUROPEAN CHANGE - AN INDUSTRIAL VIEW

INTRODUCTION

The political and economic map of Europe has changed dramatically over the last three years. The successful political campaign waged by the Solidarity movement in Poland, the opening of the border between Austria and Hungary, and the collapse of the Berlin Wall marked the initial stages of a profound change in central and eastern Europe which has implications for every part of the Continent including Ireland.

In contrast to the disintegration of central and eastern Europe, the member states of the European Community have been intensifying the process of integration. The Single European Act of 1987 leading to the elimination of all non-tariff barriers and the completion of the internal market will be achieved on schedule by the end of this year. The Treaty on European Union agreed at Maastricht last December will lead to an intensification of the integration process comprising economic and monetary union including the creation of a single currency, and a wider range of involvement by the Community in policies such as those relating to industry, the environment, education, public health, consumer protection, social policy, security and foreign policy. This extension of the areas of European competencies will also be accompanied by a widening of the scope of qualified majority voting, thus speeding up decision making.

The European Community has become a zone of prosperity, peace and stability encompassing some 360 million among its twelve member states. Six other European countries have applied for membership and many others, including countries from the old command countries such as Poland, Czechoslovakia and Hungary, have signed association agreements and aspire to eventual membership. These developments are contributing to a further evolution of the Irish economy which has undergone successfully a rapid process of change since Ireland joined the European Community in 1973. There have been three distinct phases of industrial development since then.

1. Transition 1973-1977

The first phase from 1973 to 1977 was that of dismantling of tariff barriers when tariff protection against goods coming from Continental Europe and from Britain were eliminated. During this period, industrial output expanded by 5% per annum.

2. Consolidation Phase 1978-1986

In the consolidation phase from 1978 to 1986, industrial output continued to increase at 5% per annum. Exports continued to grow rapidly. New technology industries expanded strongly but the output of traditional (primarily indigenous) industries continued to decline. The fall in output of traditional/indigenous industries was due to three factors:-

(a) a delayed reaction to the elimination of tariff protection;
(b) high cost inflation in the late seventies and early eighties funded by excessive borrowing at the earlier part of the period;
(c) depressed consumption in the latter half of the period due to poor domestic demand as measures were taken to redress balance of payments and budget deficits.

3. Expansion Phase 1987-1991

The commencement of this period coincided with the passage of the Single European Act which started a process of dismantling non-tariff barriers within the European Community and completing the Single European Market by the end of 1992. It also comprised the introduction of a more active regional policy by the European Community, when Structural Funds for the development of less-developed Community regions such as Ireland were doubled. At home the first Programme for National Recovery was negotiated leading to a sharp fall in inflation, interest rates and a restoration of competitiveness. During this period the rate of increase in manufacturing output accelerated to 8% per annum, and the indigenous sectors matched the growth performance of the new technology sectors as a whole.

4. The Post-Maastricht Phase

We are now entering the fourth and post-Maastricht phase. This phase will be characterised by a further integration of the European market. The impact of the removal of all non-tariff barriers at the end of this year, and the abolition of customs frontiers can be expected to increase the dynamism of the European market, and provide greater access to other EC markets for exported goods and services, which now account for more than 70% of the output of the Irish economy. It will also increase competitive pressures on the home market which will keep inflation low, and consequently make exported goods and services more competitive.

GDP AND EMPLOYMENT

Ireland has been one of the fastest growing European economies over the last 20 years. 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, as many had feared, 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.

Progress has been made in reducing the gap in GDP per employee between Ireland and the EC average. While Ireland has shown a substantial improvement to 87% of the EC average, the position of Denmark has slipped to 84%. Although 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 is likely that Ireland will surpass British output per employee by 1995.

However, these figures relate only to the 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. 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 growth in manufacturing output accounted for about two-thirds of total growth in the economy over the last twenty years. Firms have concentrated increasingly on their core businesses, that is, doing only the tasks which they could do most efficiently, and buying in more products and services which could be supplied at lower cost by a myriad of sub-suppliers and sub-contractors. This process of reallocating economic functions within the economy assisted the expansion of the services sector but the relationship between the total output of the economy and changes in employment remained relatively stable.

Since 1973 the Irish economy has expanded by just over four per cent per annum, and employment has increased by an average of about 0.25 per cent annually. It is evident from this experience that the underlying productivity improvement across the whole economy was about four per cent per year, the same as it was in the 1960s.

Employment and Population Growth

- There are now about 65,000 more people employed in Ireland than there were in 1973, a performance which proportionately matches that of the European Community. Almost two-thirds of this increase occurred over the last four years.

- Employment in the business sectors of the Irish economy grew much more rapidly, and is now 147,000 higher than in 1973. More than half of these additional business sector jobs were created over the last four years.

- Since the passage of the Single European Act in 1987, total employment in the Irish economy has increased by 41,000 and business sector employment by 74,000 to almost 700,000, the highest level in our history.

- Our population increased by 15 per cent, about six times faster than the Community average. This rate of increase is unmatched in Ireland since 1840.

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 to reduce 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.

Implications for Education

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 for certification still lags well behind the proportions in countries such as Germany, the Netherlands and Belgium.

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 a mother tongue 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 steadily increasing in popularity.

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 closer to 50% thus reflecting the importance of the Continent in our economic life.

IMPACT ON TRADE

Irish exports to mainland Europe have expanded sharply. Ireland has become a specialised 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 the Continental. 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 Irish industry actively avails of the opportunities of open access to larger and more rapidly expanding markets. For example, the accession of Spain and Portugal to the Community in 1986 resulted in a doubling of Irish exports to these countries over the five intervening years. The recent addition of Eastern Germany increases the opportunities for our exporters 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 countries of eastern Europe are undergoing severe difficulties in adjusting their economies to the requirements of competition and the marketplace. Economic output has fallen by amounts varying from about 10% in Hungary to 45% in East Germany. Some countries such as Hungary have adopted a gradualist approach to change while Poland went for the sudden 'big bang' approach. East Germany has been promoting a massive privatisation programme assisted by very strong investment from West Germany. Hungary has been the most successful of the central European countries in attracting foreign investment. Czechoslovakia has decided on an unique experiment of selling off about half the assets in State companies to its citizens through a voucher system in return for the payment of the equivalent of one week's salary. Industrialists in western Europe anxiously await signs of an increase in economic output in the eastern bloc countries. East Germany which has suffered the sharpest and deepest decline in output since 1989 is expected to show economic growth of in excess of 10% this year. It should prove easiest for Eastern Germany to adapt since it will receive financial transfers of £60 billion from Western Germany in 1992 alone.

However, investment in central and eastern Europe is still speculative. Infrastructure is poor and productivity is low. Wage levels in countries other than East Germany are less than 20% of Irish rates i.e. considerably below those in Portugal or Greece, the poorest member states of the Community.

Irish trade with central and eastern Europe is only one per cent of our total trade but despite the recession and turbulent economic conditions in these countries Irish exports to them have increased by about 20% last year. I expect that this will grow to about 10% of our total exports by the end of the decade. Those goods which Ireland can sell competitively within the European Community of 360 million people, are also likely to be competitive in the greater Europe.

THE ISLAND MARKET

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 the much greater degree of inter-trading in Denmark which also has a population of about 5 million underlines the potential.

In the welter of political wrangling, we may have lost sight of the practical economic opportunities. The Joint CII/CBI Northern Ireland Council representing industry on the whole island now meets regularly and has set as its main 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 are mainly specialised producers for the large European market. The development of the thousands of small and medium-sized enterprises in Northern Ireland and the Republic, is necessary provide a supportive infrastructure for the supply of components and services for their larger counterparts.

TOURISM

Tourism is also following the path charted by merchandise exports a decade earlier. In 1990 for the first time more tourists visited Ireland from Continental Europe than from the United States. The proportion of our tourist revenue coming from Continental Europe is likely to grow sharply over the next decade. Expanding tourism deepens the process of integrating the Irish economy with that of the Continent. The increased flow of tourists challenges us to develop skills of effective communication in their own languages with our visitors, 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 by Irish firms is often necessary in order to build market share and to support exports of products and services from this country. An increasing proportion of this investment is now made on Continental Europe although the US and Britain still account for 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. In 1990 most of Ireland's inward investment came from these countries in the form of companies newly set-up, or of existing companies acquired in order to supply products and services to the European market. Investment has become internationally mobile in the same way as trade in goods and services. It is now estimated that 50% of all new industrial projects in Europe are geographically mobile compared to only 30% in 1960.

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

INDUSTRIAL STRUCTURE

There has been a 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 the 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 sectors 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.

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 from mainland Europe accounted for 28% of all investment projects whether greenfield investments or acquisitions from abroad in 1990. Tourism receipts from mainland Europe accounted for 25% of total tourism revenue. Economic integration is further enhanced through the investment by Irish companies on the Continent which now accounts for 19% of Irish outward investment. Finally, 18% of our new migrating graduates are now going to Continental Europe for training and work experience.

Equilibrium will have been achieved when the Continental mainland accounts for at least 50% of activity under each of these headings. Each element is interrelated 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% of the cost 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 an Irish firm can deliver products to more than 200 million people, including destinations as far away as Berlin, Munich and Milan, within two day's delivery by truck. This two-day delivery period is critical to the customers' perception of service reliability and the ability to maintain 'just in time' delivery. 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, Tennessee 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. It is estimated that if the necessary investment in infrastructure were undertaken in faster ships and improved port facilities, and computerised processing of documents it would be possible to improve overall transit times by at least 20%. This would give Irish firms 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.

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 the pace of developments in Eastern Germany, where funds of £60 billion are now transferred annually to its population of 18 million by the rest of Germany, will demonstrate the rapidity with which the gap in productive capacity with the rest of the Federal Republic can be closed.

The Single European Act of 1987, and The Treaty on European Union expected to be ratified before the end of 1992, require 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 or Cohesion Funds proposed in the so-called Delors II package, important though these are. 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.

c) The commitment to the development of trans-European networks in order to accelerate integration and to remove congestion in areas such as transport, telecommunications and energy must concentrate not only on the removal of bottlenecks in the highly developed regions, but also on the development of more efficient links between the physical infrastructure of the less developed regions and that of the more developed regions.

CONCLUSION

Ireland has achieved a remarkable integration of its economy with that of the economy of the European Community over the twenty years. The process is likely to become both broader and deeper over the next decade. The central role of Germany and France, in particular requires that we apply greater efforts to increasing our economic, personal, and cultural links with these member states. Our economy has been one of the fastest growing in Europe since 1973. It is not beyond our potential to make it <u>the</u> fastest growing economy in the new and probably enlarged 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 the output of the European Community. The European market is likely to be both larger and more dynamic over the next decade. The small scale of our economy offers the opportunity to further adapt our production to fast growing niche markets, but from a much stronger and more competitive economic base than in the past. I believe that the New Europe offers exciting and challenging opportunities for increasing Irish economic output and employment.

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