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Confederation of Irish Industry

Confederation House, Kildare Street, Dublin 2. Tel: (01) 779801.
Telex: 24711. Telegrams: Confindus Dublin.

COMMENTS BY LIAM CONNELLAN, DIRECTOR GENERAL,
CONFEDERATION OF IRISH INDUSTRY AT THE CBI SEMINAR ON
THE REPUBLIC OF IRELAND HELD AT CENTRE POINT,
LONDON SW1 AT 11.00A.M. ON FRIDAY, 22ND JUNE 1984

BRITISH-IRISH TRADE AND INVESTMENT -
AN IRISH INDUSTRY PERSPECTIVE

IRISH INDUSTRIAL DEVELOPMENT

Ireland is a modern industrial economy. A similar proportion of its national output arises from industrial production as in the United Kingdom. The population has grown by 25% since 1960 and the pattern of emigration which had persisted for over a century was reversed over the last decade.

The population continues to expand by more than 1% per annum and the impact of the 1979/82 recession has resulted in unemployment rising to 16% of the workforce at present compared with an average of 12.7% in the United Kingdom. During recent months the rise in unemployment appears to have been halted reflecting the recovery of industrial output.

Ireland is an open trading economy and the value of total trade exceeds 120% of GDP, surpassed only by the Benelux countries within the European Community.

The export led growth of manufacturing industry has been the main dynamic for economic growth over the last 25 years.

At the end of the 1950s a new emphasis was placed on the encouragement of exports and the attraction of overseas industries to set up plants in Ireland for the manufacture of goods for the world market. The expanded output of new overseas industries more than offset the decline of older established firms which were forced to contract following the removal of tariff barriers as a result of Ireland's entry to the European Community. Ireland's success in attracting mobile international investment created the conditions for a growth rate in manufacturing output twice as great as the EEC average over the last two decades.

Irish industry has gained significantly from the decision to join the European Community. Since the early 1970s about 600 overseas firms have set up manufacturing operations in Ireland, mainly for the purpose of supplying the European market. Foreign owned

firms now account for about 40% of the manufacturing workforce and close to half of all manufacturing output. They are mainly in the fast growing new technology industries, such as, electronics, computers, chemicals, and pharmaceuticals. They have provided not only jobs but also access to modern technology and to overseas markets. They provide high quality jobs and now account for two-thirds of the total third-level recruitment by Irish industry.

INDUSTRIAL STRUCTURE

Over the last five years the structure of industry in Ireland has changed significantly. New technology firms have increased their share of manufacturing output to 40% of the total; food, drink and tobacco firms have maintained a 30% share; and the traditional industrial sectors have declined to less than 30% of total output.

The structural change pattern is likely to continue as the output of the new technology sectors continues to grow in volume by 15% per annum; that of the food, drink and tobacco sector by 2% per annum; and the output of traditional sectors shows little or no growth.

EXPORT PERFORMANCE

Over 20 years the volume of exports has increased by 8% per annum, more than twice as fast as the growth in the economy. Irish industry now exports about 60% of its total output and this proportion is increasing. Exports expanded by 12% in volume last year and are expected to grow by 13% in 1984.

The rapidly changing structure of industry in Ireland has also had a significant impact on export performance. High technology exports represented a higher proportion of total exports in Ireland than in any other EEC country in 1980 and at present accounts for a similar proportion to that in the United States.

The top five Irish exports in 1983 were computer equipment, chemicals, meat, dairy products and electrical machinery. These five product groups together accounted for almost half of all Irish exports.

TRADE DEVELOPMENT

While exports are expected to expand by 13% in 1984, imports are forecast to expand by about 10%.

In recent years the geographical destination of Irish trade has continued to diversify. In 1983 the United

Kingdom accounted for 37% of Irish exports compared with 47% in 1979. The major contribution to this diversification process has been made by new overseas firms who manufacture for a world market. Many of these firms are American owned.

There has also been a diversification of geographical origin of imports. In 1983 the United Kingdom accounted for 45% of total imports compared with 50% in 1979. If increased imports of North Sea Oil were excluded, the fall in market share would have been 3% greater. It is probable that the main reason for this decline in market share is the sourcing of components and machinery by new overseas industries most of which have parent companies from outside the EEC.

Ireland is Britain's fifth largest trading partner, and Britain is the Republic's main trading partner. Total trade between the two countries is about £5 billion sterling. I expect that Irish trade will expand in volume by more than 10% per annum throughout the remaining years of this decade. The United Kingdom, including Northern Ireland, now accounts for about 40% of Irish trade. Given the exceptionally close links - language, cultural, ethnic, economic, and commercial - it should be possible to maintain this proportion with strong effort and commitment by industry in each country.

OVERSEAS INVESTMENT

There are approximately 850 overseas industries manufacturing in Ireland. Britain is the second largest external investor in the Irish economy with 177 manufacturing firms compared with 325 of US origin, and 122 of German origin. Total British manufacturing investment in the Republic is about £750 million while the Republic invests about £76 million in Britain and is the fifteenth largest external investor.

ECONOMIC POLICY

Irish economic policy is likely to have the following policy emphasis over the next few years:-

- a) Maintenance of an internationally cost competitive climate with an inflation rate similar to that of our main trading partners. During recent years Irish inflation has been higher than that in many other European countries but it is converging with the European average and is now 9.5%.
- b) The creation of conditions which reward risk, work, initiative and investment. The current high personal taxes and Government borrowing are likely to be reduced by cutting current public expenditure.

- c) An industrial policy which continues to favour inward investment and at the same time promotes the strengthening of marketing, innovation, product and process development activities in established industries.

CONCLUSION

I believe that we have taken the economic relationships between Ireland and the United Kingdom too much for granted. As a result, market share has been lost by industry in both countries. I welcome the initiative of the CBI in arranging this Seminar. It is an important step in improving the degree of understanding of the opportunities available. I hope that working with our colleagues in the CBI we shall be able to form an Irish Economic Association in London which will bring together businessmen interested in increasing trade and investment in each direction. I believe that the potential exists to double current volumes by the end of the decade in line with the growth of total Irish trade and investment.

SHARE OF GDP – 1980

	Ireland	UK
Agriculture	13	2
Industry	36	38
Services	51	60
	100	100

DISTRIBUTION OF WORKFORCE

	1983 Ireland	1981 EEC
Agriculture	17	8
Industry	29	38
Services	54	54
	100	100

IRISH TRADE FORECAST
% Volume Growth 1984

Imports (Goods)	10
Exports	13

Source: ESRI

IRISH IMPORTS – %

	1979	1983
UK	50	45
Other EEC	21	22
North America	10	16
Japan	3	3

INDUSTRIAL INVESTMENT

	£	Ranking
UK in Rep. of I.	730	2
Rep. of I. in UK	76	15

ANNUAL GDP GROWTH
1970 – 1980

Ireland	4.1
UK	1.9
EEC	2.9

MANUFACTURING INDUSTRY
% Annual Change

	Output	Productivity	Employment
1958/64	7	4	3
1965/72	6	3	2
1973/82	3	3	0
1983/90	7	5	2

EXPORT DIVERSIFICATION – %

	1979	1983
UK	47	37
Other EEC	31	32
North America	6	9
Middle East	2	3
Japan	1	2

IRISH TRADE 1983
(£ Sterling billion)

	Total	UK
Imports	6.0	2.7
Exports	5.6	2.1
Total	11.6	4.8

UNIT LABOUR COST INCREASES
1978 – 1983

Total Economy	
Belgium	75
Denmark	82
Germany	84
Netherlands	85
France	93
Greece	95
Ireland	112
Italy	116
UK	122
EEC	90

GOVERNMENT BORROWING AS %
OF GDP

	1975	1980	1983
Ireland	12	13	13
EEC	6	4	5