# Chapter 12 Ireland's Industrial Experience & Policy Since E.C. Entry & the Implications of 1992

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This paper examines Ireland's industrial experience since 1973. Entry to the Common market in that year was the final stage in opening the Irish Economy to outside trade and competition. At the time, there was much debate as to how Irish industry would fare, and of course the optimists won the day, with the bigger market seen as a great opportunity for Irish companies. I will examine the extent to which this opportunity has been availed of, before briefly examining the implications of the latest "great opportunity "for Irish industry - the completion of the European internal market in 1992 .

The last sixteen years have seen great upheaval in Irish industry. Table 1 shows manufacturing employment by sector and two things are obvious from this table.

**Table 1**
**Manufacturing employment by sector, selected years**

| Sector | 1973 | 1980 | 1986 |
|---|---|---|---|
| Food | 48,116 | 51,843 | 40,400 |
| Drink & Tobacco | 11,021 | 11,276 | 9,039 |
| Textiles | 20,530 | 17,797 | 10,874 |
| Clothing, Footwear & Leather Goods | 28,122 | 24,116 | 16,781 |
| Paper & Printing | 15,890 | 16,874 | 13,991 |
| Non-Metallic Minerals | 15,491 | 18,956 | 13,318 |
| Timber & Furniture | 10,087 | 11,465 | 9,998 |
| Chemicals | 11,068 | 14,620 | 13,112 |
| Metal & Engineering | 46,750 | 68,314 | 62,148 |
| Miscellaneous | 8,347 | 11,402 | 10,329 |
| | 215,422 | 246,665 | 199,990 |

**(Source: I.D.A. Employment Files)**

Firstly, the period since 1973 can be subdivided into pre-1980 and post-1980. The first period, which saw manufacturing employment increase substantially, coincided with a boom in the domestic economy and very high state aid to industry. The second period, which brought a dramatic decrease in employment coincided with a domestic recession and some tightening of the industrial grants policy. I will look at each period in turn.

Secondly, there has been a significant sectoral shift within industry. The Metal & Engineering sector has replaced the Food sector as the biggest employer. Employment in the Textiles and Clothing & Footwear sectors has fallen sharply. Only in the Chemicals and Metal & Engineering sectors has absolute employment increased. In general, the 'traditional' sectors have experienced an absolute and (except for Timber) relative decline in employment. This has coincided with an

increase in electronics, instrument engineering, chemicals, etc. - the high-technology sectors.

However, the sectoral changes are not uniform over the entire period. Between 1873 and 1980, an absolute decline in employment was recorded in only two sectors - Textiles and Clothing & Footwear. Both of these were what was described as "low-wage industries" by the Telesis Report. (1). What occurred here was part of a long-term inter-industry adjustment with competitive advantage in large parts of these industries shifting to developing countries. For textiles "in standard long-runs, such as cotton-fabrics for shirts, competition from low-wage cotton-growing countries such as Pakistan, India or Egypt was in many products inevitable and insurmountable". (2). For clothing and footwear "newly industrialising countries invested in larger-scale, newer technology production facilities, and took advantage of lower wage costs: Korea and Hong Kong in men's suits, skirts or knitting; Taiwan and Brazil in leather shoes and bags; Argentina in leather; Pakistan and India in cotton cloth, etc." (14). What is remarkable about these industries' performance is that, faced with such competition from developing countries they showed great resilience. Table 2 shows the intra-industry trade ratios for certain subsectors of these industries.

**Table 2**
**Intra-industry trade ratios for selected sectors**

| Sector | 1971 | 1977 |
|---|---|---|
| Textiles, Fibres & Waste | 0.520 | 0.555 |
| Leather Manufacturers | 0.725 | 0.628 |
| Textile Yarn, Fibres, etc. | 0.622 | 0.938 |
| Clothing, Footwear, Travel Goods | 0.821 | 0.867 |

**(Source: "On the Economics of Intra-Industry Trade", Dermot McAleese (1978), p.144).** (3).

Certain textile and clothing sectors were suffering, but others were finding niches in the E.C. market. In the knitting industry for example, goods requiring very long production runs were not viable and production shifted to outerwear (medium-runs) and fashion or handmade goods (short-runs). Table 3 reinforces this, showing that the net change in employment tells only part of the story.

**Table 3**
**Components of manufacturing employment change (1973 - 1980)**

| Sector | Jobs Created | Jobs Lost |
|---|---|---|
| Textiles | 10,210 | 12,943 |
| Clothing & Footwear | 14,657 | 18,663 |

**(Source: I.D.A. Employment Files)**

By 1980 much of the inevitable adjustment to the developing countries' competition had been made. Telesis estimated that job losses in these sectors

would be lower in the 1980's. These industries were ready for a "refocusing strategy" and Telesis went so far as to identify areas where "the source of competition is in other developed countries, with similar or higher levels of labour costs." (4).

In contrast to textiles and clothing, Ireland's other 'traditional' industries did well during the first seven years in the European Community. The food sector experienced increased employment with a gradual move from exporting primary products to exporting processed products. Exports however continued to be concentrated in the United Kingdom, as is seen in Table 4.

**Table 4**
**Share of exports to Great Britain and Northern Ireland (%)**

| Sector | 1975 | 1979 |
|---|---|---|
| Sugar Confectionery | 48 | 46 |
| Bread, Biscuits & Cakes | 85 | 86 |
| Cocoa & Chocolate Confectionery | 89 | 89 |

**(Source: N.E.S.C. No. 6 (Telesis Report) Exhibit 3.25)**

This was the story for the other traditional industries also, like Paper & Printing, Drink & Tobacco, Non-Metallic Minerals, and Timber & Furniture. Intra-industry trade grew, "reflecting a genuine adjustment of these sectors to specific product lines and activities" (5) as is seen in table 5.

**Table 5**
**Components of manufacturing employment change (1973 - 1981)**

| Sector | Jobs Created | Jobs Lost |
|---|---|---|
| Food | 23,844 | 20,117 |
| Drink & Tobacco | 3,042 | 2,787 |
| Timber & Furniture | 8,065 | 6,687 |
| Paper & Printing | 6,660 | 5,676 |
| Non-Metallic Minerals | 7,836 | 4,369 |

**(Source: I.D.A. Employment Files)**

Trade growth was overwhelmingly with the United Kingdom however. Telesis reported that "Ireland has only entered the E.C. recently and is closer to the U.K. than to the six original members ... This means that Irish companies have difficulty exporting outside the former British zone." (6). The challenge for these companies in the 1980's was to break into the large markets in mainland Europe.

Finally, technologically-based industries grew rapidly in the years immediately after Ireland's accession into the E.C. It is worth noting that, as with Clothing & Textiles, substantial segments of the traditional Engineering sector also lost out to developing countries. However, unlike the traditional sectors, the Metals & Engineering and Chemical industries completely changed and adapted to the new E.C. environment. This, as will be seen later, was a conscious development

strategy of the I.D.A. who invested heavily in high-tech areas. Between 1973 and 1980, for indigenous metals and engineering firms, most jobs "came from general metal fabrication operations, metal bending and pressing, and welding and repair shops which typically serve a very local market, and from structural steel, where the economics also favours local suppliers." (7). Of the hundreds of such firms established between 1965 and 1980, only fourteen employed more than one hundred people by 1980, and only two exported any significant amount. While not impossible, Telesis concluded that it would be very difficult for these firms to break into mainland European markets.

The big job creators in the technology exporting area were the new foreign-owned companies. Since the early 1960's, it was a government policy to attract direct foreign investment by foreign firms in Ireland, and a range of grants and incentives was established to this end. Furthermore, companies producing high-technology products were considered the most attractive. As early as 1970, the I.D.A. "hoped to attract to Ireland R & D investment by leading international companies." (8). In the period 1978-80, over two-thirds of jobs approved by the I.D.A. were in the high-technology industries. Table 6 shows the huge amount of jobs created in these industries between 1973 and 1981. The number of jobs lost is also interesting. These are not simply the result of intra-industry structural change but represent foreign firms who set up in Ireland and left again during the seven year period.

**Table 6**

**Components of manufacturing employment change (1973 - 1980)**

| Sector | Jobs Created | Jobs Lost |
|---|---|---|
| Chemical | 8,314 | 4,562 |
| Metals & Engineering | 48,847 | 27,283 |

**(Source: I.D.A Employment Files)**

By December 1980, there were 10,300 jobs in electronics and electrical firms in Ireland which had been "the main focal point of activity" for the I.D.A. (9). Mainly these were manufacturing satellite plants for extra-E.C. (mainly U.S.) firms looking for a base within the European Community. There were almost 19,000 jobs in Mechanical Engineering by 1980; "mainly in sub-assembly and assembly shops commonly found in newly industrialising countries .... skilled employment represented only 1%-2% of the workforce." (10). In the Chemicals industry, there were 8,600 jobs in foreign firms by December 1980. Again, there were problems - "only two of the thirty-two companies surveyed carry on R & D in Ireland and none managed the distribution system from Ireland. Thus, the key activities which determine competitive success in this industry were not carried on in Ireland." (11). Telesis recommended changing the I.D.A. grants strategy in the 1980's, so that grants would be given only to firms creating skilled employment, in 'stand-alone' firms.

The third type of technological firms creating jobs were the sub-supply firms - those supplying the foreign firms in Ireland. Some Irish companies did well here in the 1973-80 period, but they tended to be in low-skilled areas like packaging rather than high-skilled areas like computer components.

By 1980, after seven years in the E.C. market, much adjustment had taken place. Some Irish industries had lost out to N.I.C.'s, but this inevitable (and nothing to do with the E.C.) process was largely complete. Traditional industries had specialized more; adjusting to specific product lines and activities; their trade had become more differentiated. However, this process had taken place almost exclusively with the U.K. - traditional industries had not taken advantage of the French, German, Italian and other mainland European markets. Technology-based industries were growing in Ireland, characterized by foreign ownership and substantial state support. Irish firms were finding it difficult to break into this area; either to export their own products or as a supplier to the foreign firms in Ireland.

There was much debate at the time as to what would be the most suitable course of development for Irish industry, so that the limited state funds could be spent properly. A large investment would be necessary if indigenous industries were to overcome their structural problems and a similar investment in grants and other incentives would be needed if foreign firms were to be attracted. The Telesis Report, commissioned by the N.E.S.C. to examine industrial policy, came out in favour of indigenous industries. In Kennedy's summary of the report; "The approach should be more selective, giving priority to building a limited number of large Irish companies to serve markets not only here and in Britain but in the whole Common Market and beyond. The key to the success of these companies would lie in high-quality marketing, innovation and the development of native skills .... The Report had no objection to foreign enterprise but stressed most of all the need to foster native industry, since in its view 'no country has succeeded in developing a strong indigenous sector'". (12). Of course, there were other views, and while the language of industrial policy changes somewhat in the White Paper (1984) (13), the industrial policy of the 1980's itself did not change substantially from the 1970's, with foreign investment still seen as the engine of Irish economic growth.

This has meant the continued decline of the Textile and Clothing -Footwear sectors, as already seen in Table 1, although the problem now was not developing countries. "Although some inter-industry adjustment ... was inevitable", says the N.E.S.C., "it is in general not the case that Irish production of these goods has been replaced by the output of industrial policy." (14). The N.E.S.C. understand what "this may well reflect an early belief that long-run decline was inevitable" but points out that "in many respects, the experience since 1965 has confounded this belief - it has taken a remarkably long time for these sectors to go." The Council goes even further - "it is clearly tempting to speculate on whether intervention aimed specifically towards intra-industry adjustment could have reversed the decline." Jim O'Leary did some of this speculating; "the signs are clearly that market segments with a sustainable competitive advantage exist in the clothing industry even for countries with relatively high labour costs. What is required is the installation of state-of-the-art production processes, great attention to market development, and ongoing product innovation." (15).

The more successful indigenous industries of the 1970's joined Textiles and Clothing in decline. Paper & Printing, Non-Metallic Minerals, and Drink & Tobacco all experienced output and employment decline. By 1989, N.E.S.C. was saying the same things that had been said nine years earlier - "If these firms use their fundamental strength to develop products for export then the element of import penetration could be seen as a natural outcome of taste and product

diversity typically found in economic integration." (16). In other words, the problem (although now critical) is still how to break into the mainland European markets. Why? - "These firms have not been subject to active industrial policy" says the N.E.S.C. Despite this neglect, there has been one bright spot - the Food industry has made progress in all European markets, and by 1988 three of the eight largest public companies were exporting food products - The Kerry Group, Avonmore Foods and Waterford Foods (17), not to mention the Goodman Group. This success has been possible due to special circumstance - because the comparative advantage in this sector is "largely based on access to suitable resources but increasingly it will depend on the application of scientific advances and product differentiation." (18). The decline of 'traditional' industries is shown in Table 7.

**Table 7**
**Components of manufacturing employment change (1981 - 1986)**

| Sector | Jobs Created | Jobs Lost |
|---|---|---|
| Textiles | 4,503 | 11,426 |
| Food | 18,769 | 30,213 |
| Clothing, Footwear & Leather Goods | 13,100 | 20,439 |
| Paper & Printing | 4,703 | 7,587 |
| Timber & Furniture | 8,262 | 9,729 |
| Drink & Tobacco | 1,559 | 3,796 |
| Non-Metallic Minerals | 4,944 | 10,584 |

**(Source: I.D.A. Employment Files)**

The growth areas in the 1980's have been the engineering and chemical industries. Their importance has increased steadily, even though the numbers employed have declined slightly (see Table 8). Since all industries have registered a drop in employment since 1980, the two industries of Table 8 accounted for 38% of manufacturing employment, as against 34% in 1980 and 27% in 1973. Again, the extremely high turnover of jobs in the Metals & Engineering sector is notable.

**Table 8**
**1981 - 1986**
**Components of manufacturing employment change**

| Sector | Jobs Created | Jobs Lost |
|---|---|---|
| Chemicals | 5,769 | 7,277 |
| Metal & Engineering | 47,876 | 54,056 |

**(Source: I.D.A. Employment Files)**

These high-tech industries have continued to be dominated by foreign-owned firms using Ireland as a satellite manufacturing plant. Table 9 shows some of the industries in more detail and the extent of foreign investment.

**Table 9**
**Employment level in foreign firms in specific high-tech sectors**

| Sector | % of Employment in Foreign Firms |
|---|---|
| Data Processing | 96.5 |
| Pharmaceuticals | 84.3 |
| Instrument Engineering | 94.1 |
| Other Chemicals | 78.5 |
| Electrical Engineering | 81.3 |
| Rubber | 94.7 |
| Other Textiles | 71.3 |

**(Source: Anthony Foley, "The Role of the Foreign and Irish Sectors in Manufacturing", Seminar Series, Paper 1, December 1988, p.35)**

The figures above confirm, says Foley, "the generally recognized, but inadequately discussed, high reliance on foreign companies for our involvement in sophisticated modern high-technology industries." (19). Of course, not all high-tech firms are foreign, just as all traditional firms are not Irish, but most are in each case. Irish companies have found it very difficult to break into the high-tech area, and by 1988, only three of the top forty Irish public companies were involved with high-tech products - Unidare (No. 17), Memory Computer (No. 35), and Printech (No. 37). (20). The reason for this is that high-technology industries require production on a very large scale if costs are to be competitive. The huge cost involved (never mind Irish industries' structural weaknesses) mean it is enormously difficult for an Irish company to break into the European market. For foreign firms, the situation is different - they can produce on a massive scale, and most site only a small part of their operations in Ireland. Most of them have already reached the METS and are selling onto the E.C. market, taking advantage of the fragmentation that Project 1992 is trying to do away with.

Although a National Linkage Programme has been started, three economists with the I.D.A. wrote in 1988 that "our experience in working with Irish companies ... has shown that basic structural weaknesses in areas such a management, production, technology, quality control, and scale have prevented Irish industries from capitalizing on the huge multinational market for sub-supply goods." O'Leary (1987) reported that "the extent of sub-supply linkages ... is very limited." Of course, large amounts of effort and resources are still being applied in this area, but the experience so far is not encouraging.

What then will Project 1992 mean for Irish industry? The effects will be greatest on the high-technology sectors of the economy built up over the last two decades. Ireland chose to focus on the high-tech Engineering & Chemical sectors as the means to achieve export-led growth. This can perhaps be seen as identifying a gap in the European market and trying to fill that gap. Europe was not able to compete against the U.S. or Japan in high-tech products and Ireland provided a base for U.S. and Japanese companies to operate in Europe. The purpose of 1992 however is to ensure that European firms win back this market. Over the next decade, unit costs are expected to fall significantly in European high-tech firms and competition will increase proportionately for the U.S. and Japanese firms. If the forecasts of the European Commission, and indeed most economists, are correct, non-E.C.

high-tech firms are in for a tough time in the post-1992 European market. This has big implications for Ireland. If the European firms succeed (and the future of the E.C economy to a large extent depends on this) Ireland will not be able to rely on high-tech industries for growth in the 1990's. If European firms start to regain some of the market share now held by non-E.C. firms, Ireland's high-technology sector could actually suffer job losses. Of course, this may not happen in the short-run - in the immediate period following 1992, U.S. and Japanese firms could do well. In the long-run, however, there is clearly a conflict between a rapidly expanding European high-tech sector supplying the European market and a growing U.S. and Japanese high-tech sector based in Ireland. One might reject the confident predictions of the European Commission and say that the non-E.C. firms have an unassailable advantage in the market place. If European firms do not respond to Project 1992 however, rather than Ireland's high-tech sector continuing to boom, it is likely that the E.C. would force large changes in our grants and incentives packages. Project 1992 is simply too important for Europe to be allowed to fail.

Ireland's problems in high-technology industries in a post-1992 Europe are exacerbated by the enlargement of the E.C. in recent years. Spain, Portugal and Greece are all competing directly with Ireland for mobile international investment, as is Scotland. All are underdeveloped regions which are eligible for substantial Structural and Regional funds from the E.C. and all have the advantage over Ireland of being connected by land to the main European markets. It seems likely that Ireland's attractiveness as a base for extra-E.C. companies expanding into Europe will decrease in the 1990's.

In the non-high-tech areas, Project 1992 will also have adverse effects for Irish industry. With only small economies to be achieved, the size of firms in the Community will not change much. The abolition of customs barriers and the harmonization of standards will have some effect. What could be very important is the breaking down of psychological barriers with all the publicity being given to Project 1992. Firms all over Europe are realizing how big the Community market is and the opportunities that exist for them. Competition should increase, which will give an increased spur to intra-industry trade in the European Community. Unfortunately, as mentioned earlier, Ireland has not concentrated on developing the traditional industries where intra-industry trade is likely to grow, and Ireland has many structural weaknesses in this area. In other words while Project 1992 should increase European intra-industry trade in 'traditional' industries, it will simply increase import penetration in Ireland with no corresponding increase in exports.

Given this rather gloomy scenario, it is perhaps surprising that 1992 is being portrayed so positively by government and others. As in 1973, the emphasis is on the opportunity rather than on how Irish companies might best take advantage of the opportunity. This shortsightedness is reflected in the Irish 1992 debate. The topic most often discussed is the process of creating a single European market, i.e. the harmonization of technical regulations, the abolition of frontier formalities, etc. These measures will provide Ireland with new opportunities and should of course be portrayed positively. However, what should be the focus for far more debate is the longer term creation of a more competitive economic environment in the E.C., which I have identified as a threat to Irish industry. A shift in the debate might get firms to prepare for the competition, and think about expanding themselves into Europe. The opportunity missed in 1973 could be grasped in 1992.

*Footnotes*

1. The Telesis Consultancy Group, "A Review of Industrial Policy", N.E.S.C. No. 64, February 1982, p.92.
2. Ibid, p.92.
3. Dermot McAleese, "Intra-Industry Trade, Level of Development and Market Size" in Herbert Giersch (ed) "On the Economics of Intra-Industry Trade", Symposium, Kiel University, 1978.
4. The Telesis Consultancy Group, op cit, p.95.
5. N.E.S.C., Forthcoming Publication, Chapter 3, p.8.
6. The Telesis Consultancy Group, op cit, p.100.
7. Ibid, p.113.
8. Industrial Development Authority, "Annual Report", 1980.
9. The Telesis Consultancy Group, op cit, p.137.
10. Ibid, p.144.
11. Ibid, p.146.
12. Kieran A. Kennedy, "Industry: The Revolution Unfinished", p.47, in Kieran A. Kennedy (ed), "Ireland in Transition", The Mercier Press, Dublin, 1986.
13. Government White Paper, "Industrial Policy", C.S.O., 1984.
14. N.E.S.C., op cit, p.12.
15. Jim O'Leary, "The Performance of Manufacturing Industry: Past Trends and Lessons for the Future", p.12, paper delivered to the Industrial Studies Association, March 1987.
16. N.E.S.C., op cit, p.10.
17. The Irish Times, Thursday, December 29, 1988, p.18.
18. N.E.S.C., op cit, p.12.
19. Anthony Foley, "The Role of the Foreign and Irish Sectors in Manufacturing", Seminar Series, Paper No.1, December 1988, p.35.
20. The Irish Times, op cit.