

REGIONAL ECONOMIC CHALLENGES

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INTRODUCTION

If you forget everything else which I say today, I hope that you will remember four assertions with which I should like to introduce my remarks.

No 1 - Today's business environment is like a whitewater Kayak race, class V rapids. That is how Perry Barnevik, Chairman of ABB, characterises today's world of escalating unpredictability. Endorse the status quo and you foreclose the opportunities for vital change and risk extinction.

No 2 - The only path to prosperity is a deep integration with larger markets. Jeffrey Sachs, post-Cold War economic advisor to Eastern and Central European countries, said this in a recent study of the economy of the Republic of Ireland. The thing to be feared is not globalisation but isolation. Thanks to improved communications, few places are now geographically peripheral. But everywhere is at risk of becoming economically peripheral.

No 3 - "Competitiveness has become to economics what gravity is to physics. Understanding how competitiveness works is necessary for us all". That is a quotation from Professor Garelli. The innovative capacity of regions is of strategic importance in determining their future. Viewed thus, regional policy is virtually a dimension of innovation policy rather than a social welfare initiative.

No 4 - The gap between economic change and social adjustment is, it has been well said, the critical issue of our time. Conventional economic growth per se does not solve the problem of social exclusion. The elusive goal is, in Mr Gordon Brown's words the other day, "economic dynamism with social justice". Unless the social consequences of economic change are factored into mainstream economic policy, what is little more than an unsatisfactory vicious circle of compensatory alleviation will be created.

I table these assertions in their starkest form to make graphically the crucial point that the principal economic challenge is how to relate the region successfully to the wider world. Northern Ireland already has a considerable record of export growth. But, in 1995/96, the 3 largest exporters accounted for 25%, and the 10 largest for 43%, of all exports.

To be a vigorous player in a global economy demands "best in class" standards. Those that set the standards can call the shots.

PROCESS

In devising the Regional Planning Framework, we are looking ahead 25 years. It is tempting simply to extrapolate from existing trends or to anticipate galloping change along existing paths. That is not enough in a world of discontinuity. The challenge is to be able to react fast and flexibly to unforeseen and sudden changes. That, rather than the ability to predict and forecast, will be the winning characteristic.

Some find it helpful in this context to regard the future as the product of 3 elements: chance, necessity (in the form of ineluctable trends) and will. We cannot do much about chance and necessity but the element of "will" is undoubtedly within our control. All the public and private

actors, whatever their roles, are challenged to adjust their actions in whatever way is necessary to help the region prepare for, and respond to, tomorrow's uncertainties.

That is why "Shaping the Future" has to be a social process and why planning can no longer be an exercise largely conducted within the public sector. A Regional Planning Framework has to respond to the multiplicity of shareholders and interests and seek to reconcile the value conflicts which will inevitably arise, in a way which produces the optimal result.

Since persistent joblessness and inadequate resources (even if people are in work) are the most basic forms of social exclusion, it is in everyone's interest that out of the process there should emerge the best possible spatial framework for sustainable economic development. Social equilibrium and solidarity is a condition for such development and is in turn reinforced by it.

GLOBALISATION

Globalisation must loom large in any forward vision. There may from time to time be siren voices peddling protectionism but accelerating globalisation of goods and investment, driven by advances in IT and communications, seems to be one of the ineluctable trends I mentioned.

The distinguishing feature of the globalised economy is not a surge in trade. In 1913, the ratio of exports to global output was 11%; now, 85 years later, it is possibly only twice that figure.

The distinctive new feature is the surge in investment flows across borders to wherever the production of goods and services for export anywhere in the world can be carried out most efficiently. Work on the various stages of the value chain is often spread around the globe. The statistics tell the story. World production is growing at 3% a year; world trade at 7% a year; and cross-border investments at 12%. 35% of all world trade is within multinationals, between their subsidiaries in the global network.

Another interesting statistic: over one third of cross-border investment in 1996 went to the developing countries and it is reckoned that, within the next decade, the combined output of these countries will exceed that of the developed world. Of course, as current events demonstrate, progress will not necessarily be uninterrupted. In 1970, emerging markets exported 5% of the world's manufactured goods; it is now 25% and by 2020 it is likely to be 50%. Trade, of course, will be 2-way and we must make sure to get our share of the opportunities.

The best news from globalisation is that, in the new global economy, which is information-based and free of many of the traditional limitations of distance, time and resources, something more closely approaching equality of opportunity has arrived on the investment scene. The new distinctions will no longer be between the well and the poorly endowed regions but between the fast and the slow, the learning and the static, those who are plugged in and those who don't bother.

A forthcoming study by the Northern Ireland Economic Council puts it this way: "In all developed countries, the importance of natural assets to economic activity has been on the decline and more and more value added is derived from 'created assets' ie the activities of firms resulting in knowledge creation, particularly in the high technology sectors.

CAPTURING THE BENEFITS

If we are to corral global forces - investment flows - for the benefit of this region, we must be obsessively concerned (and I use the term 'obsessively' advisedly) to know what at any point in time will attract investment to a location. To be blunt, success or failure depends on having what capital is looking for. In economic terms, a region can be regarded as simply a set of potentially useful assets and liabilities.

If we mean business, we must not merely do an inventory of our existing assets to use as a marketing tool. We must identify the locational criteria used by companies for investment purposes and take urgent, practical steps to remedy deficiencies.

There is of course a Catch 22 here. A region could be attractive because it exhibits the characteristics of economic weakness, such as an abundance of low-paid labour. Capitalising on that asset merely provides a temporary palliative and does little to promote sustainable growth. We need to access the higher reaches of the global value chain.

A few statistics show the distance which this region has to travel economically. In 1991, gross value added per employee in manufacturing here was £20,405 - or 88% of the average UK figure. By 1995 we had gone up to £26,188 but we had dropped to 85% of the UK average. Our relatively weak position in part reflects the fact that our industrial structure is insufficiently skewed towards higher value added activities. Pay levels, at 85% of the Great Britain average, reflect this. Whether the National Minimum Wage is set at £3, £3.50 or £4 per hour, proportionately 50% more workers will be affected in Northern Ireland than in GB.

Figures for 1989 show that we scored poorly so far as the distribution of jobs in high, medium and low tech industries is concerned and I doubt if there has been a dramatic improvement since then. Aerospace aside, about one quarter of our jobs were in medium or high tech compared with nearly one half in the UK overall.

The relatively limited contribution of global investment to the manufacturing base of our region is illustrated by the 1995 figures for the ratio of foreign to domestic investment. For Northern Ireland it is 30.5% compared with 46.7% for the UK overall and even higher figures for Scotland and Wales.

The fundamental question is whether we accept that radical change is an imperative rather than an option. We have been moving up the GDP per head league table and, whilst still only 83% of the UK average, we have at least nudged ahead of Wales. We are no longer at the bottom of the unemployment league and short-term unemployment is down to average UK levels. Output growth and growth in exports have been outstripping the UK overall. The performance of SMEs has been impressive and we have an array of what are undoubtedly world-class firms. 63% of the population of working age is in employment, only 2 percentage points behind Germany and 4 points behind the UK but 4 points ahead of France and 8 points ahead of the Republic of Ireland.

So a comfortable case for "steady as she goes" can be made, with reliance on more active labour market measures to crack the final nut of long-term unemployment and slow steady progress on the existing growth trajectory to do the rest.

I am as proud as anyone of what this region has achieved in appallingly difficult circumstances. But 'steady as she goes' would betray a sad lack of ambition. Surely there would be general assent that doing well enough is not good enough. Even an average growth rate of 3% a year (which exceeds what we have been achieving) would not bring us abreast of average UK living standards for another 20 years. It would take 4% to get there in 10 years. And an accelerated growth rate would not per se deal with the problem of uneven opportunity and inequality.

Let me suggest a few other reasons why 'steady as she goes' is not really an option at all.

First, our prosperity is too dependent on a strong public sector. It is not a question, as it was simplistically portrayed in the 80s, of 'public sector bad, private sector good'. The fact is that public spending is under pressure everywhere, overtaken by other imperatives. The last public expenditure round for Northern Ireland demonstrated that, far from the wind being tempered to

the shorn lamb, the shears were more vigorously applied. I doubt if much, if any, relief lies ahead. Within the EMU countries, of which the UK, after some delay, is likely to be one, the rules already dictate fiscal discipline. There is no alternative to a rebalancing of the regional economy through achieving a step change in the private sector's capacity for growth.

Second, we have (as I demonstrated earlier) an unbalanced industrial structure. It is unlikely that the number of jobs provided by the manufacturing sector will dramatically increase. What is more important is that the sector should become more robust. Having over 25% of our employment in clothing and textiles, for example, makes us vulnerable unless (as to some degree has been happening) we can gear up for efficient, high value added production. We are heavily reliant on a food sector which, by common consent, must undergo rationalisation and consolidation, planned or unplanned, in order to remain competitive. An increasingly important motor of growth will be private sector services. Internationally traded services worldwide have been growing faster than trade in goods. In 1991, Britain became the first country to earn more from invisible than from visible exports. Northern Ireland is still very weak in this area.

Third, our agricultural base will be affected by further reform of the CAP. Last time, the amount of money going into the farming sector by one route or another remained surprisingly intact. It could well be different this time. What seems certain is that, under pressure from the next round of trade talks under the auspices of the World Trade Organisation, agricultural prices will become increasingly aligned with world prices and competitive pressures will accentuate the need for restructuring. Rural unemployment or depopulation, with detrimental effects on the character of the region and the quality of life, are inevitable unless the changes which lie ahead are planned within a comprehensive strategy for rural development.

Fourth, a large number of jobs are supported in the voluntary and community sector by UK Exchequer or European Union funds. Such funds are not assured indefinitely or at their present

level and I doubt if anyone knows how many of these jobs are sustainable in the longer term. They are for the most part in sectors where economic efficiency is not the most appropriate criterion of performance.

Fifth, as and when the UK joins EMU, the ability to adjust to external shock by manipulating the exchange rate or interest rates will vanish. That is fine so long as all countries of the Union experience the same shocks uniformly and simultaneously, so that the European Central Bank can devise a policy which, by definition, will be equally appropriate for all circumstances. But if shocks are not synchronised or have a differential impact, there is universal agreement that the only adjustment mechanism will be the labour market. In the absence of adequate flexibility in the labour market, a rise in unemployment or reduced labour force participation rates or migration to more prosperous areas is inevitable. That principle applies to Northern Ireland as much as to anywhere else. Let me make clear, of course, that European developments bring significant opportunities, which we must be alert to seize, as well as risks.

These are only a few of the factors currently visible which dictate the need for a radical rethink of economic policy.

It is one thing to gain intellectual acceptance of the need for radical change. It is another to mobilise political will and institutional capacity in support of a properly integrated strategy which is more than the stitched together fragments of functionally separate programmes.

The Comprehensive Spending Review, DED's work on a new strategy document and the 'Shaping the Future' exercise which is the subject of today's Conference provide an unprecedented opportunity to achieve a holistic approach. The transition to the New Economy will be painful. Hence my underscoring the point right at the beginning that, at the heart of the strategy and not simply as an optional, residual extra, there must be means of closing the gap between economic change and social adjustment.

GOOD AUGURIES

There are a number of things happening which I believe augur well for our ability to address the agenda for change. Let me be highly selective and mention only 4.

First, there is a growing realisation of the benefits for Northern Ireland from increased trade with the rest of the island. Increasing economic interaction within the island is simply a reflection of the acceleration towards European economic integration, which will be given a powerful fillip by a single currency. The real issue is whether we resist the process or manage it to our advantage.

A recent survey recorded that all of Fortune's top 10 pharmaceutical companies operate out of the Republic and, of the top 20 electronics companies, 12 have plants there. This year, one third of all US electronics investment in Europe, 40% of teleservices, 45% of software and 75% of medical devices was won by the Republic, which has 1% of Europe's population. This typifies a formidable pattern of success over many years.

Many a region in Europe would give its eye teeth to be within such easy reach of such a large chunk of the global economy, offering substantial opportunities to suppliers of intermediate goods and services.

Companies here are already seizing their chances. Sales to the South have been growing rapidly. Last year they accounted for nearly one quarter of all our exports and over one third of our total sales to the European Union outside the UK; and they were equivalent to over one half of what we sold to the rest of the world.

But I doubt if we have yet begun to capitalise on the strategic value of our proximity to that chunk of the global economy. Post-EMU, some analysts see European business reconfiguring itself along US lines, with particular areas of Europe regarded as the specialist centres for certain types of economic activity and scooping the pool as the favoured location for the concentration of telecommunications or pharmaceuticals or textiles and clothing or cars or whatever. The South has been achieving the kind of critical mass in certain sectors which could pay off handsomely on any such scenario. Paul Krugman sees the current phase of globalisation remaining favourable to continued expansion, since, by and large, firms still want to serve the European market from a European location.

With Northern Ireland freed from the crippling shackles of violence and the liability of political uncertainty and instability, it does not require a gigantic leap of the imagination to see companies widening the angle of their lens a little and regarding a location anywhere on the island, rather than elsewhere, as the best means of enhancing economies of scale and reinforcing their original investment. The more they perceive Northern Ireland as an attractive location, the more likely this is to happen. But it will not happen unless we work actively to create the conditions for it, bearing in mind that the window of opportunity may not remain as open once Central and Eastern Europe becomes more attractive as a location for investment. The benefits for both parts of the island are obvious. Each will be missing an opportunity if it fails to capitalise on the success of the other. With an increasingly vigorous economy in Northern Ireland, it can be a 2-way street.

Second, there is a growing debate around the best way of using UK Exchequer and European Union money. I very much hope that Europe will recognise the need for strong, continued support for this region. The agenda for change which I have advanced makes, I believe, a powerful case for that. But we need to review how resources can best be deployed to achieve

the strategic vision and how we measure success (with the emphasis on outcomes against targets rather than on inputs). There are difficult issues to be addressed. Emphasis on the strategic tends to shift the focus towards the medium to long-term but, as I have emphasised throughout this paper, there are urgent short-term needs generated by the process of change itself. 'Process' - the means whereby funds are disbursed - is important, and a signal spin-off from European funding has been innovative modes of decision-making. But the next challenge is to ensure that "process" is increasingly geared to the delivery of strategic objectives which are aligned and cohere at regional and subregional levels in terms of a shared, unifying vision.

Third, there is the searching look being taken to see how additional resources and skills can be brought to reinforce the very promising local community economic development organisations so that projects which are in many cases strongly dependent on what is inevitably precarious government funding can become more sustainable long-term investments, better able to tap into conventional sources of funding.

Fourth, there is the Concordia project, being facilitated with the help of European funds by the Northern Ireland Centre in Europe. This project enables the social partners to explore the potential within the social partnership model through an examination of the problem of long-term unemployment. Work is still ongoing but I am excited by our growing perception that the key to solving such problems lies in localities and communities as sources of energy and proactive agents of change and not just as the context for macro-solutions imposed from outside. There may be much to be gained from identifying good examples of relevant local effort, and learning how in practice the networking takes place and whether the networks need to be wider and deeper and, generally, from seeing how the most effective effort on a scale commensurate with the size of the problem might be encouraged and promoted.

A COMPREHENSIVE AGENDA

The agenda for change must embrace every domain of policy. Education, for example, is crucial. The region must be connected to the world through world-class skills. We should be a model of how Education, at all levels, can play a proactive role in economic development. But my point goes much wider. Rosabeth Moss Kanter summed it up in one sentence. "To support world class business, communities must also seek to become world class".

That could - and perhaps should - form on its own the topic for a conference. Kanter goes on: 'in addition to the physical infrastructure communities need a social infrastructure ... for collaboration to solve problems and create the future'. A study of successful regions in Europe by the NI Economic Council found that it was institutional elements like this, not usually within the ambit of traditional economics, which are key factors in economic growth.

THE LEARNING REGION

One always looks for some conceptual glue - some informing principle - which can pull everything together in terms of a strategic vision. I believe that it can be found in the notion, now widely canvassed, of 'the learning region' in which (in Lundvall's words) 'knowledge is the most strategic resource and learning the most important process'. That, too, could provide the focus for a conference. In such a model, companies are in effect knowledge-creating laboratories. There is a deliberately developed regional architecture which enables companies to benefit from the economies of proximity which are reflected in business and organisational learning.

Economists are using the term 'untraded interdependencies' to capture this interaction which stimulates new products, new technology, new types of organisation. Active networking can

produce clusters of innovation - a home base of mutually supportive companies and institutions - which in turn attract and are strengthened by investment from outside the region. There is a growing consensus that the prospects for regional renewal are in fact heavily dependent on the region's networking capacity. This is why the Northern Ireland Growth Challenge, in its role as broker of more effective regional networks, is so pivotal.

Tourism cries out for development as a cluster. Contributing at present 2% to GDP, there is no reason why, in conditions of peace and stability, it should not treble in importance. The NI Tourist Board can provide strategic leadership but all the facets of the industry and those outside it whose activities impact on it need to concert their efforts to provide the bundle of services which the satisfied tourist demands. Cheap and ready access to the Province, good internal communications, a range of good quality accommodation providing value for money and taking account of the geography of our tourist attractions and facilities, really creative marketing which capitalises on all our assets: between those responsible for all these elements (and not forgetting the importance of cultural tourism) should be the 'untraded interdependencies' to which I have referred.

CONCLUDING COMMENTS

I have resisted the temptation to say that the regional economic challenge is to defeat unemployment because that risks focusing on symptoms rather than causes. It would also betray a simplistic assumption that, outside the ranks of the unemployed, there is a "norm" in the shape of fully-employed, wage-earning, socially integrated people. Life is not as simple as that. There are also those in precarious or low paid employment or those who are young and with no long-term job prospects, and many more. The challenge is to fashion the mainspring for fast growth and development and thereby tackle causes, not symptoms. I have suggested one possible agenda. There must be many others.

Could I suggest that we be so bold as to regard this 'Shaping the Future' project as what has been called in the European context an exercise in 'place-making' - in 2 senses. First, it should develop a consciousness of place among local stakeholders. That is crucial for the notion of 'the learning region' to which I referred. Second, we should thereby be helped to position ourselves vis _ vis other places which are competing with us for investment or reputation and to boost our efforts at place-marketing.

The economic challenges are formidable. They are made no easier by the fact that we are part of a global region - Europe - where unemployment remains stubbornly high and where, as countries adjust to EMU, growth rates are likely to be steady rather than spectacular. We therefore face the daunting task of bucking the trend.

Those disposed to be pessimistic might turn to page 27 of the Economist's 'The World in 1998', just published, where the following nugget can be found:

'Ulster could be the fastest-growing region in Europe by 2001'.

As quickly as that? Why not? And why should we not be able to keep ahead - if we confront the challenges?