

THE NESV VERDICT BY SECTOR

Manufacturing

EC membership to date has had most effect on manufacturing where more trade barriers have been removed. Membership increased the attractiveness of Ireland among foreign investors. This was further enhanced by our policy of generous grants and tax incentives. The result is well known - the emergence of a range of mostly foreign owned new industries in Ireland for example in chemicals and electronics. But this report highlights again the importance of developing a strong indigenous manufacturing sector.

Indigenous manufacturing has fared poorly as a result of integration. There has been a process of constant attrition over the period - "instead of integration stimulating dominant indigenous firms to exploit economies of scale and thus eliminate the tail of high cost producers, larger Irish manufacturers would seem to have been part of the tail eliminated by producers in other countries." (p.160) And to date industrial policy has failed to counteract this trend

What is the likely impact of 1992? Overall the immediate effects may benefit Irish Manufacturing Industry as, on average, the barriers that will be removed confer less

advantages and impose greater disadvantages on Irish firms relative to many of their competitors abroad. But the longer term effects will be more important, and more threatening, for Ireland. Increased competition will encourage industrial restructuring. Firms will succeed by becoming big enough to reap the benefits of economies of scale and/or through being to the fore in innovation. The challenge facing Irish companies is to match this restructuring or again be part of 'the tail' that will be squeezed out. Industrial policy should see that this restructuring takes place. The record since 1973 shows that 'business as usual' is not good enough.

AGRICULTURE

The expected benefits to agriculture were a key attraction of EC membership in 1973. The common Agricultural Policy offered increased markets and higher prices to Irish farmers. As a result farm incomes increased rapidly in the first five years of membership. But subsequently changes in the CAP and domestic economic factors led to a reversal of this situation and the first half of the eighties was a lean period. More recently farm incomes have again improved rapidly. (Of course these effects are unevenly distributed within the farming community.

The report identifies three key weaknesses in Irish agriculture; the reversal in incomes; the persistence of a sector of Irish farming where incomes are very

low and which has benefited little even in the good times; and the poor linking of agricultural production to the food processing industry. NESC argues that the CAP has done little to tackle these weaknesses. But there has also been an abdication of responsibility for these issues at national policy level with all agricultural policy being seen as dependent on Brussels. 1992 will have limited direct impact on agriculture given the continuing predominance of regulation in this sector. But the report does point out that over the longer-term significant reform of the CAP system is likely and that we need to clarify what type of reforms in this area we should support.

SERVICES

Much of what constitutes the services sector (for example personal and social services) is not traded internationally and therefore is not directly affected by the growth of the single market in Europe. However the importance of internationally traded services is rapidly increasing most notably in financial services. In addition many services are inputs to the production of traded goods. NESC believes 1992 will be more significant in services than in manufacturing because it is in services that most barriers to trade continue to exist - "In effect, therefore, service sectors are now going to face what the manufacturing sectors faced in 1973 when Ireland joined the Community" (p.310). Industries likely to see significant change include distribution (especially wholesalers), transport and financial services.