Reference Code:	2017/4/196
Creation Dates:	24 March1987
Extent and medium:	14 pages
Creator(s):	Department of Foreign Affairs
Accession Conditions:	Open
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CONSULATE GENERAL OF IRELAND

Boston

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March 24, 1987

The Secretary
Department of Foreign Affairs

Subject: The Ireland Economic Research Project - Boston/Derry/Galway

At a breakfast meeting on 20 March hosted by Mayor Raymond Flynn, cosponsored by the Committee for a New Ireland and attended by John Hume an interesting economic development programme involving Boston, Derry and Galway was formally announced.

The attached background paper prepared by the McCormack Institute, University of Massachusetts (Boston) sets out in general terms the aims of the project. Magee College in Derry and the N.I.H.E. in Limerick are collaborating with the McCormack Institute, and it is expected that the study to identify investment possibilities will commence in a matter of weeks. The follow-up phase to this study would involve bringing investors from the Boston area to inspect specific investment opportunities in the northwest.

The breakfast inquestion was attended by a number of potential investors no doubt drawn to the event by the influence of Mayor Flynn. Others present included the U.K. Consul General and the local representative of the Northern Ireland (INDUSTRIAL) Development Board; Bill McNally, American Ireland Fund; Colm Cavanagh, N.I. Business Innovation Centre (Derry); Nick Ryan, IDA (Boston); Al Raine, economic adviser to the Governor of Massachusetts; Stephen Coyle, director of the Boston Redevelopment Authority. Coyle, widely regarded as a brilliant planner and innovator, is a prime mover behind this project with the close collaboration of Ed Beard and Padraig O'Malley of the McCormack Institute, and Michael Donlan, Committee for a New Ireland. The C.N.I. provided the initial $5,000 funding and an additional $5,000 was sought at the Mayor's breakfast (one businessman publicly pledged a $1,000 on the spot).

Patrick Curran

Patrick H. Curran
Consul General

PHC/cad

COMMITTEE FOR A NEW IRELAND

March 20, 1987

<u>Note to Conferees</u>

Ladies and Gentlemen:

Welcome to the initial conference to promote long-term economic relationships with a New Ireland--with special focus between Boston, Galway and Derry. The Committee for a New Ireland was formed in the early 80's in order to promote constructive and effective involvement of Americans in helping to find a peaceful pathway out of the plight which we call Northern Ireland. Our past efforts have been largely exerted in a public education program to promote a message of reform and reconciliation in Northern Ireland, following upon the pronouncements of the New Ireland Forum. (Our most significant achievement has been to co-sponsor a series of conferences at the Kennedy Library and at Ailee House, Virginia, which laid part of the ground work for the Anglo-Irish Agreement). Our goals and commitment are wholly peaceful, educational and charitable, and we are registered as a 501(c)(3) charitable organization (chartered in Washington, D.C.).

As we all know, the pathway out of the plight must include economic as well as political development. True economic development (as we envisage it) will be inspired and led by businessmen--on <u>both</u> sides of the ocean. The McCormack Institute at UMASS has been charged by the Committee to proceed to prepare an economic plan with a special focus on Galway and Derry, in three phases: (1) an initial proposal, (2) a full proposal, and (3) a full plan. The McCormack Institute will collaborate with sister institutes in Derry and Limerick. In between phase two and phase three, businessmen wil be brought into the planning process--businessmen from Galway, Derry and Boston. After phase three the leadership of the project will be shifted to these businessmen.

The Committee has underwritten the cost of phase one. Phase two will cost about $5 Thousand. If you wish to provide a small part of that, please mark the card being distributed accordingly. Thank you for coming and for your consideration.

Sincerely,

Michael F. Donlan

Michael F. Donlan

CITY OF BOSTON · MASSACHUSETTS

OFFICE OF THE MAYOR
RAYMOND L. FLYNN

March 20, 1987

Dear Friend:

The City of Boston has benefited historically from its relationship with the Northwest of Ireland. Down through the course of centuries those in the Western County of Ireland have provided our City and the New England region with a vital resource, a resource which has helped directly to fuel the New England economy: they sent thousands of their sons and daughters to our shores.

In effect, Boston and Ireland share a bond which transcends trade and investment alone. Today Ireland, and particularly the Northwest of Ireland, do need more U.S. investments. The enclosed analysis provides an overview of the current economic situation in that part of Ireland which is anchored by the ancient cities of Galway and Derry. The analysis also indicates, in general terms, why that area is good for U.S. investment. In the months to come we will provide more detailed analysis on the economic potential of this area, and ways to promote active and balanced trade between our two nations. Our ultimate goal is to foster strong economic ties that promote prosperity and freedom.

We have asked you to come here this morning for a preliminary presentation, and to hear directly from Mr. John Hume, head of the Social Democratic Labour Party, and an early advocate of a Northwestern Irish cooperative economic effort. Let us begin the dialouge that builds the bridges of economic opportunity between Boston, Galway, and Derry.

Thank you in advance for your support.

Sincerely,

Raymond L. Flynn

Raymond L. Flynn
Mayor of Boston

A Background Paper

BOSTON/DERRY/GALWAY:

A TRIPARTITE PARTNERSHIP

Prepared by

The John W. McCormack Institute of Public Affairs

University of Massachusetts at Boston

Introduction:

The island of Ireland is divided by religious, political and social differences, and questions of national allegiance and ethnic identity. However, in the mid 1980s, the dire economic conditions that exist in both Northern Ireland and the Republic of Ireland pose formidible, indeed, some might say almost insurmountable, challenges, that will ultimately require some cooperation between the two, if either is to escape from the straitjacket of its present economic circumstances. The island itself is a prisoner of its geographical position: external recessions hit both parts of the island particularly hard when, as an outlying region, it suffers from the closing of others' subsidiary plants. This paper reviews the economic situation in both the North and the South, outlines some strategies for development activity, specifically in relation to Derry and Galway, and sets an agenda for undertaking a development project that would encompass Galway, Derry, and Boston in a unique tripartite economic partnerhsip.

The South's Economy:

For almost three decades, economic development in the Republic has been built around foreign -- mainly American -- manufacturing industry. Throughout the 60s and 70s, the Irish economy grew rapidly as these corporations expanded, took on workers and exported goods to the large European Economic Community (EEC) market.

During this period, the Republic changed from being largely dependent on exports of agricultural commodities to an industrialized country with a much broader economic base. Manufacturing output grew more rapidly than in Northern Ireland and Britain, and Irish industry achieved much faster rates of export growth. After 1973, the Irish economy also benefitted from large transfers from the EEC's Common

Agricultural Policy (CAP), and it appeared that the crisis years of the 50s had been left far behind.

However, since 1981, there has been a growing economic crisis in the Republic, and the structural weakness of the economy has been exposed once more. Comparison can again be made with the 50s, particularly amid rising emigration, a widespread feeling of hopelessness, and the canvassing of increasingly desperate remedies.

Several factors have contributed to this crisis:

-- the 1974 oil price rise imposed a heavy burden on an economy which imports all its oil;

-- Irish-owned industry began to reduce output and shed labour as competitiveness deteriorated and inflation ran higher than elsewhere;

-- with fewer U. S. investments in Europe, the number of foreign companies attracted declined;

-- output and employment growth of multinationals in Ireland declined in the early 80s, as depresssion affected the European economies -- the major markets for these export-orientated corporations; and

-- there were problems due to slow rates of growth of other major sectors of the economy, notably agriculture and tourism.

The responses of successive Irish governments since the early 80s to these problems have included: improving some grants, principally for training, to attract foreign industry; targetting new industries, such as electronic software, which could be attracted to Ireland; putting pressure on trade unions to reduce pay claims; and improving the infrastructure and reducing the cost of state-supplied goods and services such as telecommunications and electricity.

However, while these policies have had some success, it is increasingly apparent that they are insufficient. Foreign-owned industry is still expanding output but is no longer increasing employment, and most sectors of domestic industry are stagnant.

The Republic remains a high-cost location for industry -- particularly compared to Spain, Portugal and Greece, which compete for U. S. investment -- and government attempts to lower the cost of labour and other inputs have largely been unsuccessful.

Today, Ireland is still one of the poor men of the EEC with the highest rate of population growth, the highest birth rate, the highest number of dependents per member of the work force, and lowest share of industrial employment and one of the lowest standards of living in terms of per-capita income and amenities such as automobiles and telephones.

The private sector suffers from a chronic inability to generate lasting jobs. Despite the much-publicized movement of labor from agriculture into industry and services, the number of fulltime jobs has remained remarkably constant in the last 20 years. There is no way the public sector can either reduce unemployment or absorb a significant number of those coming into the labor market in the foreseeable future, since the level of public expenditure and the budget deficit are already excessive, and the government must bring both under control if some semblance of order is to be restored to the country's finances -- the country's per capita level of foreign indebtedness is now the second highest in the world and one-third of all taxes go to service the government debt. Thus, unemployment continues to rise, up from 10% in 1981 to 17% in 1984 to 20% in 1987, with no prospect of relief in sight and emigration reaching 30,000 per year.

Furthermore, the continuing rapid population growth, and an increasingly younger population -- almost one-third of the population is under 14 and one-half under 25 -- will put even further strains on the economy in the future.

The North's economy:

The major problems facing the regional economy of Northern Ireland arise from unemployment, low and declining levels of industrial output, continuing plant closings and layoffs, declining levels of competitiveness in export production, low and declining levels of private investment capital, technological obsolescence, lack of integration of foreign firms into the local industrial structure, and a growing dependence on the public sector to support almost all economic activity. Economic policy in the region for the last two decades has emphasized outside investment and the attraction of overseas producers of internationally traded goods and services with considerably little emphasis on local linkages and local entrepreneurship.

The results have been less than impressive. Out of a work base of approximately 664,000, 159,000 or 24% are unemployed. Male unemployment is worse; 28% of the entire male work force is unemployed. In certain regions the numbers are even more appalling. In Derry, for example, 29% of the overall work force and 39% of male workers are unemployed. In Strabane, the figures skyrocket to an astounding 39% overall -- and 52% male -- unemployment rates. The region's traditional industries, notably agriculture, textiles, clothing, shoes and shipbuilding have declined in the face of new competition; the oil crisis of the 1970s decimated the man-made fibres sector, which at one point accounted for almost 10,000 jobs; and the region's location on the periphery of Europe precludes easy access to the mass markets of the EEC and inhibits foreign investment.

The failure of the north's economy is due in part to structural obsolescence --the decline of the textile, shipbuilding and engineering industries, which were at one time the wellhead of the province's prosperity. Having been in at the start of the Industrial Revolution, the province had begun to pay the penalities of the early starter before the "troubles" began in the late 1960s.

The problem has acquired a critical mass of its own. In the past decade, Northern Ireland has lost one-third of her industrial jobs. About one-third of this loss -- 20,000 jobs -- may be attributed to political instability. However, the other 40,000 were lost either because of the poor competitive position of the U. K. economy in world markets or because of Northern Ireland's deteriorating competitive position within the U. K. market. Even if political instability was not a consideration, there are few "good" reasons why a company should invest in Northern Ireland.

Northern Ireland, then, also qualifies as one of the most distressed areas of Europe. The population is declining; industrial output is falling; the unemployment rate hovers at 24% and rises to 60% in the inner-city areas of Belfast and Derry. The economy is supported almost entirely by public expenditure which now accounts for almost half of the Gross Domestic Product (GDP) of the province.

The Periphery: Derry and Galway:

The cities of Derry and Galway are, in their respective ways, the capitals of the most peripheral regions of the most peripheral region -- the island of Ireland -- in the EEC. Derry is the capital of the Northwest region of Northern Ireland, a region traditionally underdeveloped in relation to the industrial area centered on the axis of Belfast, and Galway is the capital of the West of Ireland, a region which has not benefitted significantly from the economic development of the 60s and early 70s that created an industrial conurbation in the area centered on the axis of Dublin. Derry has not found a way to offset the powerful economic pull of Belfast with its access to the markets of the United Kingdom (UK) and the EEC. Galway has not found a way to offset the powerful economic pull of Dublin with its access to the markets of the U. K. and the EEC. Thus, both are especially hard hit by the ravages of unemployment and the diseconomies of production and marketing associated with being on the periphery. In Derry, as noted, 29% of the overall work force and in Galway, 25% of the workforce is unemployed. But these figures are, at best, the "least-worst" estimates of the true picture. When under-employment and those who are no longer on the employment registers, because they have either dropped out of the labor force or have been unemployed for so long that they are no longer counted as part of the labor force, are factored in, the real unemployment figures are in the area of 36% for Derry and 30% for Galway. Both Derry and Galway, however, have educated, quality-laborforces; both are university cities with the attendant cultural and socio-economic benefits that this brings, both have good economic and social infrastructures in terms of roads, industrial sites, rail transportation, education and health care facilities, etc; both are port-cities, located in deep-water estuaries; both provide access routes adjacent to much-used tourist areas; and most are the natural "poles of development" for their respective regional economies.

Strategies for Development:

This analysis begins with two propositions:

-- The economic problems described above can be significantly reduced through the development of locally based competitive enterprises.

-- The emergent form of competitive production in industrialized countries and regions is very much dependent on community structures that encourage and support both flexibility in the employment of resources and specialization in the goods produced and markets served.

Higher levels of output and productivity usually lead to higher employment and income levels. The majority of plant closings and layoffs in a declining region usually occur because of an inability to compete in traditional manufacturing sectors and a long-term decline in productive investment within these sectors.

Recent debates on the decline of manufacturing in industrialized economies have centered on flexible specialization at the workplace and sectoral cooperation as an essential element of industrial policy. Indeed, emerging trends among competitive companies and sectors in industrial countries show an increase in localism in production as a strategy to produce competitively for increasingly global and fragmented markets.

In the postwar period up until the late 1970s, industrial competitiveness was achieved through a combination of two processes. By driving down the costs of production, producers could keep prices for their output competitive in the market place. By increasing volume and velocity of production for standardized products, producers could supply the large, stable markets that characterized the world economy until only very recently.

Mass production, as decribed above, required market-stabilizing institutions and an increasingly specialized division of labor, which is precisely what we saw through the 1970s. Manufacturing was based upon specialized inputs -- machines, labor -- for generalized outputs -- standardized goods. There are numberous debates over why this competitive environment has dissipatsed. Most agree, however, that by the end of the 1970s, production in most traditional manufacturing industries was truly global, while markets for the output of these industries became extremely fragmented.

As a result, it is becoming increasingly clear that successful competition in manufacturing and services is centered on leadership in product quality/differentiation and market segmentation -- output specialization -- and labor/management cooperation, inter-firm cooperation in R & D and marketing, multi-skill training, rapid advancement in general-purpose technologies -- input generalization. The emphasis in this new competitive environment is less on absolute advantage or minimum costs and more on relative advantage -- the right product for the right market.

Flexible specialization -- the emergent form of production described above --has been practiced in Japanese industry as well as the "industrial districts" of Western Europe. In Germany, for example, these districts are able to produce "traditional" manufactured goods for many global markets because local institutions -- that is, the community -- encourage and support advanced design processes and flexible uses of labor and machines. Local institutions also maintain intra-regional supplier networks.

Design-led strategies within these innovative enterprises create pressure for consultative relations between buyers and sellers that depend upon geographical proximity if innovative ideas are to be generated and implemented. Flexible production also depends upon a pool of skilled labor for integrating new designs with machinery: skills unlikely to exist except in districts where an educated labor pool is available. Thus, the ability to serve increasingly global markets is rooted in an increasingly local production structure.

Flexible specialization depends upon a sector "infrastructure" to supply crucial functions -- marketing, technological development, multi-skill training, and industrial finance. Industrial districts in Italy are supported by marketing consortia, loan guarantee consortia, industrial parks and industrial district centers. Institutions in the districts support cooperation among competing firms and the flexible employment of productive resources. Competitive production is thus very deeply rooted in the community structure of these districts.

The U. S. Experience

The development of flexible specialization and industrial districts is viewed by many as an adjustment mechanism to ease the transition of mature industries and their communities into the new competitive environment or to facilitate growth in underdeveloped regions. Many regions in the U. S. suffer from indigenous economic problems similar to those in Derry relating to the decline of traditional manufacturing industries, and to those in Galway relating to underdevelopment.

The decline of several regionally concentrated industries in Massachusetts, for example, has prompted a cooperative response from policymakers in the state. The metal working machinery industry of Franklin County in Western Massachusetts and the needle-trades industry of Fall River/New Bedford in southeastern Massachusetts have suffered serious decline. Some factors contributing to this decline have been foreign competition, declining investment in plant and machinery by plant owners (often non-local companies or investors pursuing diversification strategies), and changing market structures to which managers have been unable or unwilling to respond. In response to closings and layoffs in the needle trades communities, the Executive Ofices of Economic Affairs and Labor established the Needle Trades Action

Project (NTAP) and the Machine Trades Action Project (MTAP) to assist in the stabilization and revitalization of the needle trades and machining industries and to halt the erosion of high-skill and well-paying jobs.

Both MTAP and NTAP are organized around the concept of flexible specialization and community labor/management support structures. There are cooperative efforts, functioning through boards comprised of community leaders, labor and management people with subcommittees set up to coordinate functions required by the specific group of firms. The NTAP subcommittees, for example, coordinate marketing, engineering, technology, and training for Fall River's apparel and sewn goods industries. Between July and September, 1986, two NTAP activities were instrumental in maintaining significant employment levels in four needle trade firms in Fall River. One was the networking of local contractors to local manufacturers. The second was the prevention of a Boston-based outerwear firm from moving its production facilities offshore, leaving Fall River with possibly three plants closing in the later summer. NTAP negotiated an agreement with the company to coordinate the re-engineering of its Fall River plant, providing an arena for the union, community and company to talk. Thus the reindustrialization of this declining region has depended upon practical community action based on trust, cooperation and consensus building.

An Agenda:

Boston is the capital of a state which has undergone an economic turnaround in the last ten years. Like Derry and Galway, Boston is both a port-city and a university city. The city itself has undergone a virtual economic transformation in the last decade and is now one of the major financial and service centers in the U. S.

A tripartite partnership for development activity between Boston, Galway and Derry would require that three major preliminary steps be completed:

-- The first step is to determine the sectors in Galway and Derry which offer the most potential for development using the flexible specialization model to analyze investment opportunities, especially in regard to their community orientation, their job-creation potential, and their efficacy to re-utilize excess capacity and the existing industrial and service infrastructures.

-- The second step is to conduct an audit of the resources in both Derry and Galway, that is, to determine with respect to a particular industry (or industries), what the skill base is, how rigidly skills and jobs on the shop floor are classified; what the method of bargaining between labor and management is; what the level of technology in manufacturing is; whether advanced technology is accessible; where firms in the industry acquire capital, etc. This exercise will involve not only an assessment of the obvious management and worker skills and the educational and infrastructural specialties but also of the social competence imbedded in the region's culture.

-- The third step will involve the matching of the opportunities for development-investment with the resource bases and the design of the project itself.

Collaborative Relationships

The McCormack Institute of Public Affairs has formal collaborative arrangements with Magee College, the Derry campus of the University of Ulster, and the National Institute of Higher Education (NIHE) at Limerick to promote research and educational programs among the three institutions. It is proposed that Magee College and the NIHE, under the direction of the McCormack Institute and Northeastern University, would undertake the preliminary analysis, with respect to Derry and Galway, involved in designing the tripartite project.