

## MINISTER'S SPEECH TO THE NORTHERN IRELAND ECONOMIC CONFERENCE

Thank you chair and good morning delegates.

I'm delighted to be with you today to give the keynote address for this, the 12<sup>th</sup> annual Economics Conference.

These are exciting times for Northern Ireland and your conference theme - *'facing the challenges of the Northern Ireland economy'* - is both apt and timely.

Of course, the economic challenges have been the subject of rigorous debate in recent months. And many here today helped shape the reports produced by the Assembly Sub-Group on the economic challenges facing the economy. But we now need to turn quickly from diagnosing the challenges to facing them with a clear action plan.

So, in that light, I want to frame my remarks today using a character from a bygone era: Mr Facing-both-ways.

That is, I want to initially **face the past** and consider the developments in the economy over the past 12 years since this conference has been in operation and also briefly rehearse some of the economic challenges that remain.

I then want to **face the future** and consider what type of economy we collectively should be aspiring to. I believe this is one of the few areas in political and business life where there is overwhelming consensus - that is, on the need for a more prosperous, wealth creating private sector.

And then, having faced the past and future, I want to conclude with a few remarks on what we need from key stakeholders in order to secure our shared destiny.

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**So let's initially face the past and consider how the economy has progressed and what challenges remain.**

The inaugural Economics Conference was, of course, held in 1996. Then, the key economic data painted a very different picture than they do today.

Unemployment was running at double digit levels of 10% - it currently stands at 3.4% and the lowest of all UK regions. The level of employee jobs in 1996 was almost 600,000 but now it is 24% higher and the largest seasonally adjusted figure on record. I need only look to my own consistency in North Belfast to see this improvement as the number of people on the unemployment register has fallen by a massive 66%.

But successes need not be limited to the labour market.

The education system is also turning out an increasing number of well educated entrants into the labour market. In 1996, 28% of our 18 year olds continued their studies into higher education; now the figure stands at over 37%.

The contribution of the private sector to economic output has also increased - by 58% - to currently stand at over £17bn and this has been driven largely by growth in financial and business services.

Our manufacturing sector is also becoming increasingly outward-looking, with exports increasing by 72% since 1996 to stand at £4.6bn in 2006.

We are also becoming more successful in attracting Foreign Direct Investment (FDI). For example, the Northern Ireland economy has secured over £3 billion worth of FDI since 1996.

Furthermore, the nature and quality of FDI is beginning to change. In the past, NI's competitive advantage was mostly based on our lower cost base. This, of course, is no longer viable given competition from low cost economies such as India and China. Now, Invest NI is attracting much higher value added investments. For example, Citibank, Fujitsu and Liberty IT have all announced significant investments in recent months. And, to reinforce the point, average wages in inward investment projects in 2005/6 were 43% above the private sector average. Also in 06/07, Invest NI helped lever £176m of investment that went directly into the economy.

Firms are also spending more on R&D than before, with Business Expenditure on R&D standing at £136m in 2005, over 50% higher than in 1996. But even this growth has been outstripped by the performance of SMEs, as their expenditure on R&D has increased over the period by an impressive 136%.

Turning to tourism, the peace process and political stability have undoubtedly improved Northern Ireland's image abroad. In fact, we were recently tipped as a "must-see" destination by Lonely Planet, so we are a very much a region on the rise, in that sense.

Connectivity has also improved. As recently as 2002, there was only one direct scheduled international flight to Northern Ireland. But now it's possible to fly to or from Belfast from around 30 international destinations. Overseas tourism to NI has also grown faster than elsewhere in Western Europe. There were almost two million visits to NI in 2006 - over 500,000 more than in 1996 - and this generated spend of almost £400m.

But, despite this progress, the growth in living standards relative to the UK has been limited. GVA per capita - the broad measure of economic prosperity - was only 80% of the UK average in 2005 and has shown little or no convergence since the mid 1990s.

This fact alone suggests that significant economic challenges remain. For the sake of time, I want to focus on 4 that have occupied my mind since taking office in May.

**Firstly**, it's clear to me that, despite progress in the labour market, the economy remains, in comparative terms, output poor. Our productivity levels are significantly below the UK average - in fact, 20% below. The relative position has also deteriorated in recent years as we have failed to keep pace with productivity improvements across the rest of the UK. Our private sector remains poorly structured with a bias toward lower value added activity, paying lower wages with lower profit related activity. As a consequence, the public sector has shouldered the burden of wealth creation for too long and this needs to change.

We need to grow the private sector, and grow it in such a way that focuses on the key growth sectors of ICT, Finance and value added Business Services. This is why increasing productivity in manufacturing and tradable services will be the key priority for my Department in the months and years ahead.

**Secondly**, too many of our brightest and best leave to study abroad. And, of the almost one in three that choose to study outside of Northern Ireland, only 26% return. It's simply unacceptable to have that level of human talent leave to facilitate economic growth elsewhere. So we need to create the right conditions to keep them and attract others back. That requires better employment opportunities and higher paying jobs.

We also have the highest rate of labour market inactivity in the UK - currently 27.1% of our working age population are not in work and are not looking for work. Furthermore, too many of our adults have literacy and numeracy problems which limit their employment prospects. And this is at a time when surveys are highlighting concerns in relation to skill shortages and mismatches. The challenge therefore is to reduce inactivity and build on our impressive employment record. It's vital that everyone is equipped with the skills to enable them to contribute in the fullest possible way to building a more prosperous economy. I know that my Executive colleague, Sir Reg Empey, is tackling this issue. For example, DEL

is in the process of rolling out a number of initiatives such as Pathways to Work, and Steps to Work which are aimed at helping people re-engage with the labour market.

The **third** key economic challenge is to increase the level of innovation and exports. Enhanced performance in export markets is absolutely vital if we are to develop a more value-added economy. As outlined previously, we've made some progress in this area but there's scope for considerably more growth. Exporting firms tend to be more productive, pay higher wages and engage in more R&D. In particular, FDI firms, by their nature, tend to be more export orientated and consequently have a hugely important role to play in addressing this challenge. It's also vital that that our workforce is equipped with the right skills to engage in innovation. That's why we need to encourage greater participation in the STEM subjects and, to do this, we need to reach back into the school system to encourage our young people to pursue these qualifications.

The **final** challenge that I wish to mention briefly today relates to infrastructure. Clearly we need to invest more heavily in our economic infrastructure in order to enable businesses compete effectively with their counterparts elsewhere. This means that, amongst other things, we need enhanced world-class telecommunications, competitively priced energy and effective transport linkages. From the point of view of the public sector, the Investment Strategy for Northern Ireland is the vehicle to reflect these priorities and I'm working with my Executive colleagues to pursue these objectives.

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So, having set out the key challenges facing the economy, let me pose the question: **what type of economy do we want to build for the future?** Many here today were involved in developing the Northern Ireland Economic Vision. The Vision sets out a clear objective for the economy, and I quote, "a high value-added, highly skilled, innovative and enterprising economy which enables us to compete globally, leading to greater wealth creation and better employment opportunities for all". Wordy ... perhaps, but sound as a guideline for the future. In reality, it means:

- We need an economy where businesses, both domestic and foreign owned, are increasingly concentrated in the higher value added sectors.
- We need better jobs, paying higher wages that keep the brightest and best here in Northern Ireland.
- We need to be more innovative in both our products and processes. The global economy is dynamic and standing still is simply not an option.
- We need to be more outward-looking, selling our goods and services throughout the world.

That's the type of economy we need as we collectively face the economic challenges of the 21<sup>st</sup> Century.

But, let's remember, we compete within a fast changing global economy that often throws-up the unexpected. As Harold Macmillan once famously remarked when asked what worried him most, he replied: 'events, dear boy, events'. And, as the financial markets have recently shown, prospects for economic growth can change rapidly. Local businesses will be as much influenced by these factors as any other. The economy therefore needs to be stronger and more wealth creating to help deal with these unexpected events.

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So, chair, having faced the past and gazed into the crystal ball of the future, I want to conclude with some remarks on the important actions that key stakeholders need to take in order to help secure the prize of a growing, more prosperous private sector.

Let me begin with the role of Government and the public sector.

- Northern Ireland is emerging from almost four decades of civil unrest, during which the wider political and security agenda was naturally paramount. The economy now

needs the maximum emphasis in terms of policy and resources, that is deliverable in the context of the many demands and pressures that the Executive faces. As DETI Minister, I naturally make the argument that the economy should be a key priority - indeed the top priority for the Executive. My reasoning is twofold: firstly, we need to show, to investors and others, that the Executive is very much pro-business and focused on the things that really matter to people: securing better paying jobs and higher standards of living. And secondly, that with a more prosperous local economy we will have the means to tackle the wider social issues of poverty and exclusion. The economic development and social welfare agendas need not be viewed as competing priorities. They are complementary to each other. And I would say to the conference today that I'm far from alone in holding these views. I'm hopeful that they will be appropriately reflected in the forthcoming Programme for Government.

But it's not just about priorities and resources - the Executive also has an opportunity, that devolution creates, to challenge the UK Government on the efficacy of its regional economic policy.

I, for one, believe that the Treasury's 'one-size-fits-all' approach to fiscal incentives is insufficient. It simply fails to take account of the unique features of regional economies such as Northern Ireland. In employment terms, we have the smallest private sector of all UK regions. The Executive has already grasped this challenge role. It submitted a robust case, to the Varney review, to reduce the rate of corporation tax in Northern Ireland to 12.5% to help capture greater levels of valued added FDI. We're still awaiting the outcome of that proposal but, whatever view the Government takes, it must address the real need to promote convergence in the regional economies of the UK.

Certainly any fiscal incentives we could offer businesses to invest and trade in Northern Ireland would help as we continue our preparations for the forthcoming US / NI investment conference scheduled for Spring 2008. But we already have a lot to offer for example, in terms of increasing levels of skilled labour, advanced telecommunications, and accessibility to European markets. The investment conference will help showcase Northern Ireland to major US corporations and present the region as a prime business location especially for key ICT, financial and business service sectors. The first event in relation to the Conference will take place on 15/16 October when Ambassador Tuttle and Foley lead a delegation of US business leaders to Northern Ireland. We in the Executive are extremely grateful for the encouragement and support of our American friends. We look forward to our engagement with the Ambassadors and with the business leaders.

But with a much tighter CSR round than before, we also need to maximise the return from our own investments and especially those targeted at the productivity drivers of innovation, skills, enterprise and infrastructure.

The Assembly sub-group on economic challenges rightly identified the need to target investments in the high value added service sector. I've already outlined some of the good investments that we've already secured there: but only yesterday I made another important FDI announcement. mFormation, with support from Invest NI, will create over 160 new high valued added jobs with total investments worth £16m in the mobile telecoms sector. This is exactly the type of investment we need. In the coming weeks, I hope to announce further investments in the software sector, which is fast becoming an area where we have some competitive advantage relative to other UK regions. Many factors are behind this. But it is particularly encouraging that research commissioned by my Department indicates that firms in the ICT sector here are more innovative than their UK counterparts. We need to build on this and develop strengths in other areas as well.

And undoubtedly one key area is in International Financial Services, particularly with mutual and hedge funds. Of course, the Republic of Ireland economy very clearly displays the benefits of targeting this sector. It has over 50 major hedge fund companies with a trillion dollars of assets and annual growth of around 30%. But Northern Ireland has already attracted some business in this area, especially with the Bank of Ireland Securities Services recently establishing a Hedge Fund Centre of Excellence in Belfast. This is just one

example and, as Invest NI continues to target this important growth sector, I'm very hopeful that we can secure further investments.

But the public sector is far from the only or even key stakeholder in terms of strengthening the economy. The private sector has also a major role to play. Indeed, in the well-worn words of John F Kennedy, I would say to business leaders and employer organisations today: 'ask not what your country can do for you' rather 'ask what you can do for your country'.

We urgently need entrepreneurs and businesses to be more outward looking; to seriously engage in R&D and innovation; and to improve their ability to trade globally.

We also need employers to step up to the plate and invest more heavily in the training needs of their workers. Around 80% of the current working age population will still be in the workforce by 2016, and so 'on-the-job' training is more critical than ever before.

In short, if we are to see the much needed improvements in the economy, then we **all** have a pivotal role to play. We need to harness the key skills and resources in the private and public sectors, including those working in higher and further education, the voluntary and community sectors and the trade unions. If we get this right, we can put the Northern Ireland economy on the global map as a great place to live, work and invest in.

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So, Chair, it's clear to me that our economic challenges are broadly similar to those faced by other UK regions. Labour productivity needs to improve; investment in high value added growth sectors needs to increase, from both indigenous and FDI sources; the labour market needs more skilled people for the growth areas of financial and business services; innovation and R&D levels also need to increase, as does the level of exports. The key variable will be how well we rise to the challenges.

But, with the positive developments in the economy over the past decade or more, I have every confidence that we can build on recent successes and address the challenges that remain - but we need to do so quickly and in partnership with all stakeholders.

We can also learn some lessons from our venue today. We are, after all, in the place that was '**built for a bishop and is fit for a king**'. It's one of the many establishments in Northern Ireland that has respect for its tradition and heritage. But, as is evident from the exterior today, it is also investing for the future. This is exactly what we need to do for the economy at large.

The challenges may be great but we shouldn't let them daunt or intimidate us. They may be great but the rewards are even greater.

I wish the conference well for the proceedings today.

Thank you.