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WHITE HOUSE SITUATION ROOM

*KB - section in
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book - economy.*

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PRT: SODERBERG

SIT: NSC PETERS SUM2

<PREC> PRIORITY <CLAS> UNCLASSIFIED <DTG> 081355Z SEP 95

FM AMEMBASSY LONDON

TO RUEHC/SECSTATE WASHDC PRIORITY 3514
INFO RHEHAAA/WHITEHOUSE WASHDC
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RUEHDL/AMEMBASSY DUBLIN 3370
RUEHBL/AMCONSUL BELFAST 7334
UNCLAS SECTION 01 OF 04 LONDON 012534

*cc
TO MAP -
Can we get someone
to write an op ed
along these lines?
ms*

WHITE HOUSE FOR SBROPHY
NSC FOR SODERBERG AND PETERS
COMMERCE FOR 4000/AS/IEP/C.MEISSNER

E.O.12356: N/A

TAGS: PREL, ECON, EI, UK

SUBJECT: NORTHERN IRELAND'S ECONOMY A YEAR AFTER THE
CEASEFIRE: MUCH IMPROVEMENT DESPITE UNCERTAINTY OVER
PEACE PROCESS

SUMMARY

1. THE DRAMATIC DEVELOPMENTS IN THE NORTHERN IRELAND
PEACE PROCESS OVER THE PAST YEAR HAVE GRABBED THE
HEADLINES, BUT RELATIVELY LITTLE ATTENTION HAS BEEN
FOCUSED ON THE POSITIVE IMPACT THAT THE CEASEFIRE HAS
HAD ON THE ECONOMY. UNEMPLOYMENT HAS DROPPED
SUBSTANTIALLY, WHILE RETAIL SALES, INVESTMENT AND
TOURISM HAVE ALL INCREASED SIGNIFICANTLY OVER THE PAST
TWELVE MONTHS. SOME POTENTIAL FOREIGN INVESTORS,
HOWEVER, HAVE PROBABLY ADOPTED A WAIT-AND-SEE ATTITUDE
PENDING ASSURANCE THAT THE END OF VIOLENCE WILL BE
PERMANENT.

2. WE RECOMMEND THAT THE PROVINCE'S ECONOMIC RESURGENCE
BE HIGHLIGHTED BY PRESIDENT CLINTON DURING HIS NOVEMBER
VISIT TO NORTHERN IRELAND, PARTICULARLY SINCE U.S.
ECONOMIC INITIATIVES SUCH AS THE WHITE HOUSE CONFERENCE
HAVE CONTRIBUTED TO THE IMPROVED BUSINESS CLIMATE. THE
RESIDENT ALSO SHOULD MEET WITH THE NORTHERN IRELAND

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BUSINESS COMMUNITY AND U.S. INVESTORS ALREADY ACTIVE IN NORTHERN IRELAND TO DEMONSTRATE CONTINUED U.S. INTEREST IN PROMOTING COMMERCIAL RELATIONS TO SUPPORT THE PEACE PROCESS. END SUMMARY

AN ECONOMY ON THE MOVE

3. MOST ECONOMIC INDICATORS FOR NORTHERN IRELAND HAVE IMPROVED MARKEDLY SINCE THE CEASEFIRE WAS ANNOUNCED IN AUGUST 1994. MANUFACTURING OUTPUT ALONE GREW BY MORE THAN 7 PERCENT DURING THE FIRST SIX MONTHS OF THE CEASEFIRE, COMPARED WITH ONLY 3.5 PERCENT IN THE REST OF THE UK.

4. THE WELL-KNOWN MANAGEMENT CONSULTANCY GROUP "BUSINESS STRATEGIES" ESTIMATES THAT NORTHERN IRELAND WILL BE THE FASTEST GROWING REGION IN THE UK THIS YEAR, WITH ECONOMIC GROWTH OF 4.4 PERCENT (COMPARED TO 2.8 PERCENT IN BRITAIN), DUE TO SUBSTANTIALLY INCREASED INWARD INVESTMENT AND EXPORT-DRIVEN MANUFACTURING. SOME OF THE IMPROVEMENT IN THE PROVINCE'S ECONOMY CAN BE ATTRIBUTED TO THE MORE GENERALIZED UPTURN IN THE REST OF THE UK AND EUROPE, BUT ANALYSTS AGREE THAT MOST IS DUE TO THE CESSATION OF POLITICAL VIOLENCE AND THE RESULTANT INCREASE IN BOTH BUSINESS AND CONSUMER CONFIDENCE.

5. RETAIL SALES HAVE JUMPED BY MORE THAN ONE-FIFTH OVER THE LAST YEAR. MOST STORES, PARTICULARLY THOSE IN BELFAST, EXPERIENCED RECORD SALES LAST CHRISTMAS AS SHOPPERS NO LONGER FEARED RANDOM BOMBINGS.

6. THE ROBUST ECONOMY IS REFLECTED IN THE HOUSING MARKET WHERE PRICES HAVE LONG BEEN DEPRESSED BECAUSE OF "THE TROUBLES." HOUSE PRICES ARE RISING MUCH FASTER THAN ANYWHERE ELSE IN THE UK. MOREOVER, NORTHERN IRELAND IS THE ONLY AREA OF THE UK WHERE INCREASING NUMBERS OF NEW HOUSES ARE BEING BUILT, ACCORDING TO THE NATIONAL HOUSE BUILDING COUNCIL. NEW STARTS WERE UP A WHOPPING 20 PERCENT LAST QUARTER, COMPARED WITH DECREASES IN EVERY OTHER AREA OF THE UK.

RENEWED CONFIDENCE

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7. AFTER A GENERATION OF POLITICAL VIOLENCE, THE CEASEFIRE HAS PRODUCED A READILY PERCEPTIBLE "FEELGOOD" FACTOR WHICH HAS CREATED A MOMENTUM FOR CHANGE. SURVEYS BY THE NORTHERN IRELAND BRANCH OF THE CONFEDERATION OF BUSINESS INDUSTRY (CBI) SHOW CONFIDENCE IN THE BUSINESS COMMUNITY IS AT AN ALL-TIME HIGH. CONSUMERS ALSO FEEL MORE SECURE. THE NUMBER OF SHOPPERS WHO SAY THEY FEEL SAFE SHOPPING IN BELFAST HAS JUMPED FROM 41 TO 61 PERCENT. AS A RESULT, PEOPLE IN THE STREET HAVE MORE CONFIDENCE TO GO OUT AND SPEND MONEY, ESPECIALLY THOSE FROM RURAL AREAS WHO WERE SCARED OFF IN THE PAST. AS NOTED IN PARA 4, RETAIL SALES HAVE JUMPED BY MORE THAN 20 PERCENT OVER LAST YEAR.

8. REFLECTING A NEW SENSE OF CIVIC PRIDE AFTER THE CEASEFIRE, BELFAST CITY OFFICIALS HAVE BEEN PROMOTING UNCLAS SECTION 02 OF 04 LONDON 012534

WHITE HOUSE FOR SBROPHY
NSC FOR SODERBERG AND PETERS
COMMERCE FOR 4000/AS/IEP/C.MEISSNER

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THE CITY AS NEVER BEFORE. IN MAY, FOR INSTANCE, BELFAST ENTERED INTO ITS FIRST "SISTER CITY" RELATIONSHIP WITH NASHVILLE, TENNESSEE.

TOURISM INCREASED DRAMATICALLY

9. THE NUMBER OF TOURISTS VISITING NORTHERN IRELAND INCREASED DRAMATICALLY SOON AFTER THE CEASEFIRE WAS ANNOUNCED. VISITORS IN THE FIRST SIX MONTHS OF THIS YEAR WERE UP 56 PERCENT ON 1994. PASSENGER ARRIVALS AT BELFAST AIRPORT HAVE INCREASED BY A THIRD, AND HOTELS ACROSS NORTHERN IRELAND HAVE BEEN FULLY BOOKED DURING THE SUMMER SEASON. INDEED, POST-CEASEFIRE ULSTER IS HAVING DIFFICULTY ACCOMODATING ITS VISITORS.

10. THE NORTHERN IRELAND TOURISM BOARD BELIEVES THIS INCREASE CAN READILY BE SUSTAINED AND EVEN INCREASED AS

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LONG AS PEACE PREVAILS. THE NUMBER OF INQUIRIES RECEIVED BY THE TOURIST BOARD HAS MORE THAN DOUBLED IN THE PAST SIX MONTHS, INDICATING THAT THE PROVINCE IS NOW BEING SERIOUSLY CONSIDERED BY EVER MORE HOLIDAYMAKERS. TOURISM OFFICIALS ARE DELIGHTED WITH THE RESULTS OF A RECENT SURVEY BY "ARTAC WORLDWIDE", A CONSORTIUM OF 500 INDEPENDENT UK TRAVEL AGENTS, WHICH SHOWS THAT THEY CONSIDER NORTHERN IRELAND HAS THE POTENTIAL TO BECOME AS POPULAR A DESTINATION AS THE CHANNEL ISLANDS OR THE LAKE DISTRICT.

11. THE TOURISM INDUSTRY HAS MOVED QUICKLY TO CATER TO THE ENHANCED TOURISM POTENTIAL OF THE PROVINCE:

-- IN JULY AER LINGUS LAUNCHED A NEW WEEKLY AIR LINK CONNECTING BELFAST WITH NEW YORK AND BOSTON (VIA SHANNON).

-- THE LEADING UK SHORT-BREAK TOUR OPERATOR, CRYSTAL PREMIER, IS OFFERING HOLIDAYS IN NORTHERN IRELAND FOR THE FIRST TIME.

-- A CRUISE SHIP RECENTLY CALLED IN DERRY FOR THE FIRST TIME IN DECADES. DERRY CITY OFFICIALS SAY MORE VISITS ARE IN THE WORKS.

-- HOTEL CHAINS ARE SHOWING GREAT INTEREST IN THE REGION. HASTINGS HOTEL GROUP, FOR EXAMPLE, RECENTLY ANNOUNCED A 10 MILLION POUND STERLING (16 MILLION DOLLAR) EXPANSION TO ACCOMMODATE THE SURGE OF VISITORS.

GREATER INVESTMENT INTEREST BUT CAUTION PREVAILS

12. THE NORTHERN IRELAND INDUSTRIAL DEVELOPMENT BOARD (IDB) HAS EXPERIENCED A THREEFOLD INCREASE IN INQUIRIES FROM FOREIGN COMPANIES SINCE THE CEASEFIRE WAS ANNOUNCED. IDB CHAIRMAN JOHN MCGUCKIAN SAYS THE CEASEFIRE MEANS IDB IS NOW OPERATING ON A LEVEL PLAYING FIELD WITH COMPETING BODIES IN OTHER COUNTRIES IN WINNING FOREIGN INVESTORS. HE CAUTIONS, HOWEVER, THAT MANY POTENTIAL INVESTORS ARE WARY OF WHETHER THE PEACE WILL LAST AND HAVE ADOPTED A "WAIT-AND-SEE" ATTITUDE OVER THE NEXT FEW MONTHS.

13. VISITS BY POTENTIAL INWARD INVESTORS HAVE RISEN BY NEARLY 40 PERCENT OVER THE PAST YEAR. TEN INVESTMENTS

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WITH THE POTENTIAL FOR 2,000 JOBS HAVE BEEN ANNOUNCED SINCE THE CEASEFIRE. THESE INCLUDE PROJECTS BY SEVERAL LARGE GLOBAL FIRMS: NORFIL (PART OF THE INDONESIAN OWNED TEXMACO GROUP), SEAGATE (U.S.), AND THE KOREAN FIRMS DAE RYUNG AND DAEWOO.

14. THE THREE LARGEST BRITISH SUPERMARKET CHAINS -- TESCO, SAFEWAY AND SAINSBURY -- ARE MOVING INTO THE PROVINCE IN FORCE FOR THE FIRST TIME AND COMPETING FOR CHOICE SITES FOR NEW MEGASTORES. SAINSBURY ALONE IS PENDING 100 MILLION POUNDS (160 MILLION DOLLARS) ON SEVEN OUTLETS THAT WILL CREATE MORE THAN 2,000 JOBS. THIS ONE INVESTMENT ALONE WILL PROVIDE EMPLOYMENT TO A SIZEABLE NUMBER OF THE PROVINCE'S 87,000 UNEMPLOYED.

15. THE SURGE IN INWARD INVESTMENT SINCE THE CEASEFIRE LED THE IDB IN JULY TO DOUBLE ITS TARGET FOR JOBS CREATED BY INWARD INVESTMENT. THE AGENCY NOW ENVISAGES SECURING 60 INVESTMENT PROJECTS OVER THE NEXT THREE
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YEARS WITH THE POTENTIAL TO CREATE 12,000 JOBS.

16. THE NEW CHIEF EXECUTIVE OF THE IDB, BRUCE ROBINSON, HAS EMPHASIZED IN MEDIA INTERVIEWS THAT THE MAY WHITE HOUSE CONFERENCE HAS HELPED ENORMOUSLY TO RAISE THE PROFILE OF NORTHERN IRELAND. HE IS PARTICULARLY PLEASED THAT THE WHITE HOUSE CONFERENCE LED TO CONTACTS WITHIN AMERICAN COMPANIES AT A FAR HIGHER LEVEL THAN IDB NORMALLY OBTAINS. AS A DIRECT RESULT OF THE CONFERENCE, ROBINSON SAYS IDB'S MAIN INTEREST AT PRESENT IS ATTRACTING U.S. INVESTORS. IDB HAS INCREASED ITS U.S. EXECUTIVE STAFF BY A THIRD OVER THE PAST FEW MONTHS AND OPENED A NEW OFFICE IN ATLANTA.

17. THE SECRETARY OF STATE FOR NORTHERN IRELAND, SIR PATRICK MAYHEW, HAS ALSO PUBLICLY ACKNOWLEDGED THE

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IMPORTANT ROLE PLAYED BY THE WHITE HOUSE CONFERENCE IN MAKING THE U.S. BUSINESS COMMUNITY AWARE OF THE COMMERCIAL OPPORTUNITIES IN NORTHERN IRELAND. IN A SPEECH LAST MONTH AT QUEEN'S UNIVERSITY IN BELFAST, MAYHEW STATED THAT THE CONFERENCE "GAVE A VALUED STIMULUS TO PROMOTING NORTHERN IRELAND AS COMPLETELY OPEN FOR INTERNATIONAL BUSINESS AND TOURISM."

CREATING MORE JOBS

18. THE SURGE IN ECONOMIC GROWTH HAS TRANSLATED INTO STEADILY FALLING UNEMPLOYMENT OVER THE PAST YEAR. THE NUMBER OF UNEMPLOYED DROPPED TO 87,500 IN JUNE, REPRESENTING 11.6 PERCENT OF THE WORKFORCE. UNEMPLOYMENT HAS NOW REACHED ITS LOWEST LEVEL IN 14 YEARS, AND THE GAP WITH THE MAINLAND BRITISH RATE (CURRENTLY 8.3 PERCENT) HAS RAPIDLY DECREASED. HOWEVER, HIGH RATES OF LONG-TERM UNEMPLOYMENT REMAIN A STUBBORN PROBLEM IN MANY RURAL AND URBAN AREAS WHICH HAVE BEEN THE TRADITIONAL RECRUITING GROUNDS FOR PARAMILITARIES. THE BRITISH GOVERNMENT HAS EARMARKED THE "PEACE DIVIDEND" OF THE SECURITY FORCES (I.E., THE MONEY SAVED BY NOT HAVING TO PAY OVERTIME AS A RESULT OF THE CEASEFIRE) TO FUND AN INNOVATIVE "COMMUNITY WORK PROGRAM", WHICH IS STILL IN THE PILOT STAGE, TARGETED ON THE LONG-TERM UNEMPLOYED.

19. THE NORTHERN IRELAND ECONOMY CONTINUES TO BE HEAVILY DEPENDENT ON THE PUBLIC SECTOR WITH A MUCH HIGHER SHARE OF THE LABOR FORCE EMPLOYED BY THE STATE THAN ELSEWHERE IN THE UK. AS A RESULT, MANY PEOPLE EXPECT THE STATE TO PROVIDE JOBS. THIS MENTALITY MAY WELL PRESENT A SPECIAL CHALLENGE FOR REDUCING EMPLOYMENT.

20. ESTIMATES OF FUTURE JOB CREATION WITH SUSTAINED PEACE VARY SOMEWHAT DEPENDING ON THE FORECASTER, BUT ALL FORESEE A SIGNIFICANT DECLINE IN UNEMPLOYMENT OVER THE REMAINDER OF THE DECADE. THE "BUSINESS STRATEGIES" CONSULTANCY GROUP EXPECTS 8,000 NEW JOBS THIS YEAR BECAUSE OF THE CEASEFIRE AND AN ADDITIONAL 35,000 BEFORE THE END OF THE DECADE. THE NORTHERN IRELAND DEPARTMENT OF ECONOMIC DEVELOPMENT HAS PREDICTED JOB CREATION OF A SIMILAR ORDER OF MAGNITUDE.

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COMMENT AND RECOMMENDATION

21. THE RESURGENCE OF THE NORTHERN IRELAND ECONOMY SINCE THE CEASEFIRE IS THE TYPE OF "GOOD NEWS" THAT NEVER SEEMS TO MAKE IT TO THE FRONT PAGES. NEVERTHELESS, WE THINK THE MESSAGE NEEDS TO GET OUT THAT THE CEASEFIRE HAS NOT ONLY ELIMINATED BOMBINGS AND SHOOTINGS BUT ALSO PROVIDED REAL JOBS AND INCREASED PROSPERITY TO PEOPLE IN BOTH COMMUNITIES. MOREOVER, THE ECONOMIC BENEFITS WILL BE EVEN GREATER IF THE CEASEFIRE IS TRANSLATED INTO PERMANENT PEACE. SOME POTENTIAL FOREIGN INVESTORS, FOR INSTANCE, ARE UNDERSTANDABLY HESITANT TO INVEST AND THEREBY CREATE JOBS UNTIL A POLITICAL SETTLEMENT IS REACHED. (DESPITE THESE POSITIVE TRENDS, EXPECTATIONS OF THE PEACE DIVIDEND BY BOTH SIDES OF THE DIVIDE TEND TO BE SOMEWHAT HIGHER THAN REALITY. WE THEREFORE NEED TO BE CAUTIOUS NOT TO EXAGGERATE THE ECONOMIC BENEFITS OF PEACE.)

22. WE RECOMMEND THAT THE PROVINCE'S ECONOMIC RESURGENCE BE HIGHLIGHTED BY PRESIDENT CLINTON DURING UNCLAS SECTION 04 OF 04 LONDON 012534

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IS NOVEMBER VISIT TO NORTHERN IRELAND, PARTICULARLY SINCE U.S. ECONOMIC INITIATIVES SUCH AS THE WHITE HOUSE CONFERENCE HAVE CONTRIBUTED SO MUCH TO THE IMPROVED BUSINESS CLIMATE. CONSIDERATION SHOULD ALSO BE GIVEN TO HAVING THE PRESIDENT MEET WITH THE NORTHERN IRELAND BUSINESS COMMUNITY, INCLUDING U.S. INVESTORS, TO DEMONSTRATE CONTINUED U.S. INTEREST IN PROMOTING COMMERCIAL RELATIONS TO SUPPORT THE PEACE PROCESS.

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