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Inward Investment in Peripheral Regions: Ireland

Firms engage in operations in countries or regions outside their home country/region essentially in order to enhance or protect their profitability. The nature of these operations will vary depending on the nature of the firm's business, the way in which its business operations are configured, and those characteristics of both home and host countries/regions which impinge on the firm's profitability. Most commonly, firms invest in other regions in order to reduce costs (via, for example, cheap labour, financial incentives or a permissive regulatory environment) or to gain or enhance access to markets, raw materials, technology, skilled workers or specialist input suppliers (Dicken 1998; Dunning 1993, 2000).

Whereas in its early days foreign direct investment (FDI—where a firm invests in an overseas operation over which it has direct control) was mainly concerned with gaining access to resources or overseas markets, in the 1950s and 1960s the search for sources of cheap labour also assumed considerable importance in decisions to move manufacturing production overseas. The main pull factor was the availability of supplies of cheaper labour elsewhere, augmented in many cases by various incentives (tax breaks, labour subsidies, etc.) offered by governments in certain countries and regions. Meanwhile, in many developed countries, the post-World War II period saw the emergence of government policies designed to attract industrial investment to peripheral regions, including both regions which

had never experienced industrialization, and formerly prosperous industrial regions which were experiencing a lack of competitiveness leading to long-term decline (see chapter 4).

Investments subsequently attracted to both newly-industrializing countries (NICs) and peripheral regions within advanced economies had several features in common. Firstly, they almost exclusively involved manufacturing branch plants which imported the great bulk of their materials and whose output was almost entirely exported. As a consequence, the countries/regions in which such plants were located became known as "export platforms." Such plants typically functioned as economic enclaves within their host regions, developing very few linkages with local businesses and reinvesting little of their profit locally. Secondly, in addition to investments in traditional, low-tech sectors such as clothing and toys, new branch plants were also to be found in more modern sectors such as electronic and electrical appliances. Normally, however, these plants were only engaged in the most labour-intensive stages (such as assembly of appliances and sub-assemblies or sewing of clothing) in the production chain involved in transforming raw materials into final products.

Overall, the migration of manufacturing branch plants to peripheral regions and countries has had the effect of creating new spatial divisions of labour in the global economy (Massey 1984). At the international level, this has taken the form of the so-called "new" international division of labour (NIDL), whereby underdeveloped economies, in addition to the primary-producing functions which marked their role in the "old" international division of labour originally identified by Karl Marx (see chapter 4), also became involved in routine, low-skill manufacturing functions relocated from the developed core economies (Fröbel et al. 1980).

Inward investment of the type described above became an increasingly central element of the economies of both Northern Ireland (henceforth the "North") and the Republic of Ireland (the "South") in the period since World War II and particularly since the 1960s. In the case of the North, such investment was designed to replace those established indigenous industrial sectors which were undergoing long-term decline (especially linen textiles and shipbuilding), whereas in the South the principal motivation was to create a strong industrial base in a country whose economy hitherto had been dominated by agriculture. The rest of this chapter describes and evaluates the experience of both economies with respect to inward investment. Two sections outline the measures originally introduced to attract outside investment in the two regions and the subsequent performance of these measures. The following sections focus on the difficulties experienced with inward investment in the North and South in the 1970s and 1980s, and the policy responses designed to tackle these difficulties. The more re-

cent situation is then considered, with particular attention being devoted to the surge of inward investment, which was a central element in producing the so-called "Celtic Tiger" phenomenon in the South. The chapter concludes with some observations on the possible future trajectory of inward investment policies in the two economies, with particular reference to the possibility of a move to North-South collaboration in the promotion of inward investment arising from the so-called peace process in the North.

Early Development of Inward Investment in Northern Ireland 1945-1970

As detailed in chapter 4, the industrial base, founded largely on the shipbuilding and linen industries, which had been created in Northern Ireland in the 19th century, came under severe pressure from technological change and competition from elsewhere in the second quarter of the 20th century. In line with the general trend in the U.K. as regards the rehabilitation of depressed industrial regions, in 1945 the Belfast government enacted the Industries Development Act and provided financial assistance for employment creation in new industrial undertakings, mainly in the form of grants towards the cost of buildings and equipment. Subsequent legislation in the 1950s provided assistance to existing Northern Irish firms seeking to modernize and expand.

With investment by indigenous firms falling to negligible levels in the 1950s, new industrial jobs almost entirely originated from firms moving to Northern Ireland from elsewhere. Initially these came almost exclusively from Britain, but in the late 1950s American branch plants also began to arrive in significant numbers. By 1960, one in six manufacturing jobs in the North was in firms which had received state financial assistance (most of them externally-controlled). However, this new employment creation only partially counterbalanced the decline in indigenous industry which occurred in this period.

In the 1960s, the decline in traditional manufacturing accelerated alarmingly, with employment in shipbuilding falling by no less than 60 per cent and that in textiles and clothing by 16 per cent. In this decade, however, the contraction of indigenous industry was almost entirely balanced out by the growth of employment in new projects, almost all of them externally-sourced. A key factor here was the general strengthening of regional policy in the U.K., and especially the more rigorous application of the industrial development certificates legislation which sought to restrict the opening of new manufacturing plants in the more prosperous southeast and west midlands regions of England. In this decade a very generous battery of incentives for industrial investment was put in place by the Northern Ireland

government, including grants of up to 63 per cent of the cost of buildings and equipment (compared with around 50 per cent in the case of the Development Areas in Britain), industrial site and advance factory provision, industrial fuel and labour training subsidies, housing for key workers and business advisory services (Murie et al. 1974). It has been estimated that the North's superior incentives led to the creation of 40,000 extra manufacturing jobs in the region in the 1960s compared with what would have been the case had levels of support similar to those in Britain's development areas been available instead (Moore et al. 1978). This amounted to almost one-quarter of total manufacturing employment at the end of the decade.

The surge of inward investment into Northern Ireland in the 1960s was again dominated by British firms, but also featured strong growth from the U.S. By 1973, externally-controlled plants accounted for just over one-half of total manufacturing employment, with British firms representing three-quarters and U.S. firms one-fifth of the external sector (Hamilton 1993). A key feature of inward investment in this period was its domination by a number of very large projects, attracted by the North's generous capital grants regime. These projects were mainly in the electrical engineering and especially the synthetic textiles sectors. Investment in the latter sector accounted for one-half of all industrial investment in the North between 1967 and 1974, by which time one-quarter of all U.K. synthetic fibre production capacity was located in the region (Harrison 1990).

Overall, therefore, while total manufacturing employment in the North fell only very slightly (by just 2 per cent) in the 1960s, this masked a very major shift which had occurred in the structure of the manufacturing sector, with the traditional and largely indigenously-owned linen and shipbuilding sectors having undergone substantial contraction, to be replaced by plants in more modern, technologically sophisticated and predominantly externally-controlled sectors, particularly electrical engineering, chemicals and synthetic fibres.

Early Development of Inward Investment in the Republic of Ireland 1959-1973

The adoption, in the late 1950s, of an inward investment policy by the government of the Republic of Ireland was in response to the growing crisis which it faced as the policy of protectionism adopted in the 1930s ran up against the limits of a very small domestic market and a chronic balance of payments deficit arising from the need to import industrial inputs without compensatory growth in industrial exports. With industrial employment growth having come to a standstill and the adjacent British economy booming, the rate of outmigration from the South reached unprecedented

levels: a total of 440,000 people left the country during the 1950s—one in seven of the entire population.

A number of measures introduced in a piecemeal fashion during the 1950s paved the way for the adoption of a full-blooded inward investment policy by the end of the decade, including grants to encourage industrial investment and tax relief on profits derived from exports, which was initially designed to stimulate exports by Irish firms. The restrictions on foreign control of Irish-based industry, which had been a key element of the economic nationalist policy introduced in the 1930s were also gradually relaxed and the Industrial Development Authority (IDA) was established to promote industrial investment. The emerging policy of basing national economic development on export-oriented industrialization, in which inward investment would have a key role, was formalized in the First Programme for Economic Expansion (1959–1963) which committed the Republic of Ireland to an outward-looking development path.

An impressive package of incentives designed to attract foreign investment was in place by 1960. Capital grants of up to two-thirds of the cost of fixed assets along with labour training grants could be paid to new industrial undertakings. Complete relief from corporation tax on profits derived from exports was available to new firms for a period of fifteen years. The IDA was in the process of building a network of overseas offices and quickly gained a reputation as a very effective investment promotion agency. A final major component in the package of attractions which the Republic was able to offer foreign investors was a substantial reservoir of labour which, despite lacking technical skills, had a generally good level of basic education and was prepared to accept levels of remuneration significantly below the norm in both the U.K. and the more advanced economies of continental Europe.

The attractiveness of this package was reflected in the gradual build-up of overseas investment in the South during the 1960s, with a particular boost being provided by the Anglo-Irish Free Trade Area Agreement, concluded in 1965, which provided duty-free access to the British market for manufacturing firms based in the Republic of Ireland. This investment, in turn, underpinned the recovery of manufacturing employment growth following the stagnation of the 1950s. Whereas manufacturing employment grew by just three thousand (less than 2 per cent) in the latter decade, this leapt to 36,000 (20 per cent) in the 1960s. There was also strong growth in average output per manufacturing worker, reflecting, to a considerable extent, the more modern technology introduced by foreign firms in this period (Kennedy et al. 1988).

About 70 per cent of additional employment created up to 1974 in firms in receipt of new industry grants was in foreign firms (McAleese 1977). The U.S. was by far the most important source, accounting for 37 per cent of

all new foreign-firm employment, followed by the U.K. (20 per cent), the Netherlands (15 per cent) and Germany (13 per cent). There was, however, a considerable amount of further employment in already-established foreign-owned firms which did not receive grant assistance in this period. These were mainly British firms, which either predated independence or had received exemptions from the restrictions on foreign-owned enterprise during the protectionist period. Total employment in foreign-owned firms in 1974 amounted to about 28 per cent of total manufacturing employment and was mainly made up of British (43 per cent) and American (27 per cent) firms (Ó Súilleabháin 1982).

While new foreign firms were engaged in a wide range of activities, by far the leading sector was metals and engineering, whose share of total manufacturing employment rose from 16 per cent in 1960 to 23 per cent in 1973, at the expense of the food and drink and textiles and clothing sectors. Foreign firms, therefore, were contributing both to a sectoral diversification and technological upgrading of the industrial structure. A further significant feature of new foreign investment was its relative tendency to avoid Dublin and other large urban centres and to opt instead for smaller towns, especially in the west of the country (Gillmor 1985; O'Farrell 1975). This latter tendency may be attributed in part to deliberate government encouragement of spatial dispersal of new investment, and partly to a preference among investing firms for the lower costs and what was perceived to be less troublesome labour available in rural areas (Breathnach 1985).

The 1970s: The North and South Go Their Separate Ways

In the 1960s the Northern and Southern economies grew increasingly alike. In the North, despite the contraction of the 1950s, the level of manufacturing employment was still relatively high and was largely sustained by the replacement of declining indigenous industry by a surge of new industrial firms moving in from outside the region. In the South, industrial employment, which had experienced a temporary surge in the early days of protectionism, was again raised substantially by the growth in inward investment. Thus, not only had the gap between the two economies in the level of industrialization that prevailed at the time of partition been greatly narrowed, but the dependence of the two economies on externally-controlled branch plants had grown substantially. In the North, by 1973 more than half (53 per cent) of all manufacturing employment was in externally-controlled firms (Hamilton 1993); in the South the figure was 26 per cent and rising rapidly.

In the 1970s, however, the two economies had profoundly differing industrial experiences. In the North this was reflected in a major decline in

manufacturing employment, which fell by no less than one-quarter during the course of the decade. What was new about this was that not only did the contraction in the traditional industries continue, it was combined with equally rapid decline in the externally-controlled sector. The main factor involved here was a very severe drop in employment in the synthetic textiles sector, which had played the central role in the growth of inward investment in the previous decade. While the international recession triggered off by the severe oil price increase imposed in 1973 by the Organization of Oil-Producing Countries (OPEC) had a general dampening on global markets, it particularly affected the synthetic fibres sector for which oil was the basic raw material. The resulting loss of competitiveness vis-à-vis natural-fibre-based textiles was further exacerbated by another major rise in oil prices in 1979. Meanwhile, growing imports of synthetics from both the U.S. and the developing world placed additional pressure on the U.K. industry in particular. In 1980 alone, Northern Ireland lost 73 per cent of its synthetic fibre producing capacity. An industry which in 1974 employed more than 10,000 had all but disappeared ten years later (Harrison 1990).

The decline in the externally-controlled sector was not confined to synthetic textiles; the mechanical and electrical engineering sectors also reported significant job losses. Overall, the external sector accounted for about half of the decline in manufacturing employment in the North in the 1970s, with British firms in turn accounting for almost all of the net loss in the external sector. The final key factor in the severe contraction of the North's manufacturing sector in this decade was the collapse in new inward investment after 1970. This may be attributed in part to the recessionary state of the global economy through much of the decade and in part to the secular decline of the British industrial economy (which hitherto had been the principal source of inward investment to the North). Clearly, another key factor was the deterring impact of the outbreak of political unrest in the region in the late 1960s. There has been much debate over the impact of the political troubles on employment in the region, due mainly to the difficulties involved in establishing the likely counterfactual situation (Bradley and Dowling 1983; Gibson 1983; Munck 1993; Simpson 1983). Those estimates place the manufacturing employment loss (mainly in the form of new inward investment forgone) in the 1970s in the region of 25-50,000 (i.e., between 19 and 38 per cent of manufacturing employment at the end of the decade) (Canning et al. 1987; Gudgin et al. 1989; Rowthorn 1981).

The overall decline in manufacturing employment in the North in the 1970s would undoubtedly have been much worse were it not for a significant level of expansion among surviving firms and greatly expanded investment in new indigenous projects, particularly in the small and medium enterprise (SME) sector. The promotion of the latter sector was the particular

responsibility of the Local Economic Development Unit (LEDU), set up in 1971. Harrison (1986) has suggested that the indigenous sector had been largely neglected during the high period of inward investment in the 1960s and it was only when it became clear in the 1970s that the external sector could no longer cater for the North's industrial employment needs that renewed efforts were made to stimulate growth among indigenous firms. Harrison points to this as one of the ways in which an over-reliance on inward investment can have a negative impact on endogenous development in a branch-plant economy.

By contrast, in the 1970s the South experienced a major surge of new inward investment. This was principally triggered by entry to the EEC in January 1973, which meant that the Republic of Ireland could now be used as a low-cost base for accessing the huge EEC market. This was particularly attractive to U.S. firms seeking a production location inside the EEC's Common External Tariff, especially as Ireland was English-speaking, had strong cultural links with the U.S., was strongly pro-American, had familiar legal and financial systems and politically was both stable and conservative. Between 1973 and 1981, employment in foreign manufacturing firms grew by more than 40 per cent; U.S. firms accounted for 80 per cent of this growth. As a result, the U.S. share of foreign-firm employment rose from 27 to 41 per cent. During the same period, there was an actual decline of more than 20 per cent in employment in British firms, so that their share of total foreign-firm employment fell from 46 to 26 per cent. Thus, the decline in British investment in the North in the 1970s was, to an extent, replicated in the South. Indigenous industry—generally inefficient, concentrated in traditional sectors and increasingly exposed to external competition at a time of international recession—also experienced considerable contraction in this period. As a result, the foreign sector's share of manufacturing employment rose from 26 to 35 per cent.

Foreign investment in the South in the 1970s was mainly concentrated in the metals & engineering and chemicals & pharmaceuticals (henceforth "pharmachems") sectors. In terms of engineering, a key new growth sub-sector was electronics assembly, reflecting the contemporary growth of this sector in the U.S. Ireland became a particular target of young, rapidly-growing firms seeking the cash-flow benefits of the zero tax rate. By contrast, investment in the pharmachems sector tended to be in large, capital-intensive plants producing bulk chemicals.

The nature of the Irish operations of foreign firms in these sectors throws some interesting light on the concept of the new international division of labour, popularized in the 1970s. To a considerable extent, the Irish electronics industry as it developed in that decade conformed with the stereotypical image of electronics assembly plants located in free trade zones in

east and southeast Asia. Thus, Irish electronics plants were characterized by a preponderance of unskilled assembly “operatives” who in turn were mainly young, single women. At the same time, the Irish plants were significantly different from their Asian counterparts in several respects (Wickham and Murray 1987). In the first place, whereas typically in the case of the latter, 90 per cent or more of the workforce comprised operatives, in the Irish case the figure was just 57 per cent in 1981. While this was still well above the U.S. average of one-third, Irish electronics plants still included a substantial proportion of scientists, technologists and technicians. This reflected the fact that, while Asian assembly plants tended to specialize in mass production of sub-assemblies and consumer products, in Ireland there was more of an emphasis on batch production of more complex products (computers, instruments and industrial control systems). Furthermore, while the Asian plants generally sent their products back to their parent firms (usually in the U.S.) for final assembly, the Irish plants were mainly involved in producing final products for the European market.

Nevertheless, the Irish electronics industry in the 1970s was a labour-intensive industry and that the majority of the industry’s workforce consisted of unskilled operatives. The availability of a substantial reservoir of such workers at low cost therefore was an important reason for locating in Ireland. For firms in the pharmachems sector, the reasons for locating in Ireland appear to have been quite different. While the sector is made up of a diverse range of activities, it has been dominated, in investment and output terms, by a relatively small group of capital-intensive plants involved in the bulk production of active medical ingredients. Because of the high quality standards required of these plants and their sophisticated production technology, they generally have tended to employ an above-average proportion of technically-skilled workers (engineers, chemists, technicians, craft workers).

This is a sector dominated internationally by very large firms which exploit their oligopolistic strength and the protection of patents to generate high profits (Telesis Consultancy Group 1982). For these firms, the prime attraction of locating in Ireland has been the low tax rate. These firms operate globally-integrated production systems, with different stages in the production chain located in different countries, thereby generating a high level of material flows between vertically-linked plants. The prices applied to transactions between these plants (so-called “transfer prices”) can be manipulated so that overall profits are concentrated in those plants located in the countries with the lowest tax rates (Dicken 1998). It is hardly surprising, therefore, that the pharmachems branch plants located in Ireland portray a high level of linkage with affiliate plants overseas, either as sources of raw materials or as recipients of outputs. Thus, McAleese (1977) found that,

while a high level of inter-affiliate trade was a common feature of foreign branch plants in Ireland, it was particularly highly-developed among pharmaceuticals plants which sold 93 per cent of their exports to affiliates.

Overall, then, we can conclude that no simple stereotypes can be applied to the manner in which the Republic of Ireland was incorporated into the international economy in the 1960s and 1970s. Different sectors, and different firms within sectors, were drawn to Ireland for different reasons, usually multiple, which varied from case to case. Ireland's success in attracting inward investment in this period, therefore, may be attributed to the broad spectrum of advantages that the country offered.

Because of their labour-intensive nature, foreign-owned electronics (and electrical engineering) plants had a substantial impact on the structure of industrial employment in the South during the 1970s. Thus, the share of total manufacturing employment taken by the metals and engineering sector jumped from 15 per cent in 1971 to 24 per cent in 1981. Because of its capital-intensive nature, the impact of foreign investment in the pharmaceuticals sector was felt more in terms of industrial output and exports than of employment. The sector's output grew by 187 per cent in volume terms between 1970 and 1979 compared with 59 per cent for all industry, while its share of total industrial output doubled to 17 per cent between 1973 and 1984.

In spatial terms, a key feature of the 1970s in the South was the deliberate pursuit of a systematic dispersal policy by the IDA, which in 1969 had been given statutory responsibility for regional industrial planning (Breathnach 1982, 1985). The objective of this policy appears to have been to achieve a share of total manufacturing employment in each region comparable to its share of the national population (previously the more urbanized regions, and especially the East region containing Dublin, had disproportionately large shares of manufacturing employment). The principal measures utilized by the IDA in pursuit of its dispersal policy included an extensive program of advance (ready-built) factory construction; spatial variation in the grants offered to prospective investors and selective showings of possible investment locations to such investors.

The IDA's success in promoting western locations among incoming investors may be seen in the fact that, in 1981, the proportion of total manufacturing employment accounted for by foreign firms was around 50 per cent in the northwest, west and midwest regions while it was much less in the east, northeast and southeast (Gillmor 1985). By the beginning of the 1980s the regional distribution of manufacturing industry was largely in line with that of the population. This was, to a considerable extent, a consequence of the movement of new inward investment to the western regions. However, a second important contributory factor was the simultaneous loss of jobs in the more urbanized eastern regions, as existing indigenous indus-

try began to encounter severe competitive pressures from 1973 on due to a combination of EEC entry and international recession.

The 1980s: Inward Investment in Crisis

The beginning of the 1980s coincided with the most severe international economic recession since the 1930s. As a consequence, international trade stagnated and levels of overseas investment by transnational companies contracted for the first time since World War II, involving a combination of cutbacks in new investments and withdrawals from existing investments (Dicken 1998). This had serious implications for economies that had become heavily dependent on inward investment, including both parts of Ireland.

In the North, the headlong fall in manufacturing employment, which had appeared in the 1970s, accelerated further in the early 1980s. Total manufacturing employment, which had stood at 196,000 in 1950, dipped below the 100,000 mark in 1983 before recovering somewhat in the following years as the nadir of the recession passed. With employment in indigenous firms holding relatively steady, the bulk of the decline in the manufacturing sector occurred in the external sector, where the number of jobs in 1986 was less than half the 1973 level (table 7.1). By 1986 employment in British firms was down to one-third of its 1973 level, while employment in U.S. firms fell by one-third in the same period. The share of total manufacturing employment taken by externally-controlled firms was down to 41 per cent compared with 52 per cent in 1973. Of the overall decline in manufacturing employment between 1973 and 1986, more than two-thirds occurred in the external sector.

All the major industrial sectors shared in the decline of the external sector. The synthetic textiles sector had been decimated while the number of jobs in externally-controlled traditional textiles and clothing firms was halved. Even in the modern electrical and instrument engineering sector,

Nationality	Employment 1973	Employment 1986	Change 1973-86	% Change 1973-86
GB	64,400	22,300	-42,100	-65.3
USA	17,300	11,700	-5,600	-32.4
Other foreign	5,800	7,700	+1,700	+29.3
Total external	87,500	41,700	-45,800	-52.3
As % total NI	51.8	40.6	69.1	n.a.
Northern Ireland	81,400	60,900	-20,500	-25.2
Total	168,900	102,600	-66,300	-39.3

Table 7.1 Manufacturing Employment Change, Northern Ireland, 1973-1986
Sources: Hamilton 1993; Northern Ireland Economic Council 1992

employment was down by almost 60 per cent (Hamilton 1993). An important factor in the decline in the external sector in this period was that new inward investment, which had recovered slightly in the late 1970s, fell to a trickle in the early 1980s. However, the resumption of strong growth in international investment associated with the recovery of the global economy in the second half of the 1980s was reflected in the North in a significant, but still minor, growth in new inward investment.

In the South, the early 1980s also witnessed a shakeout in foreign sector employment, although it was not nearly as severe as that experienced in the North. Yet, with indigenous employment contracting even more rapidly, the share of total manufacturing employment accounted for by the foreign sector actually rose, from 38 per cent in 1981 to 41 per cent in 1987. In that year, the proportion of manufacturing employment in external firms in the South exceeded that in the North for the first time. As in the North, there was something of a recovery of inward investment towards the end of the 1980s, so that by 1990 employment in foreign firms had regained the level of 1981, but had further risen as a proportion of total manufacturing employment to 43 per cent (compared with 39 per cent in the North).

Whereas the level of penetration of the manufacturing sector by externally-controlled firms in both parts of Ireland was broadly similar in 1990, there were some significant differences between the two economies in terms of the structure of the external sector (Northern Ireland Economic Council 1992). In the North, the dominant sector remained textiles and clothing, accounting for 34 per cent of external sector employment compared with just 13 per cent in the South (table 7.2). By contrast, by far the leading sector in the South was metals and engineering (46 per cent of employment compared with 27 per cent in the North). These sectoral differences were reflected in the nationality of external firms. In the North, 57 per cent of employment was in British firms (down from 74 per cent in 1973) with the U.S. a long way behind at 23 per cent. In the South, U.S. firms accounted for 48 per cent of foreign-firm employment (up from one-quarter in 1973) while the British share had fallen to 19 per cent from 46 per cent in 1973. Thus, it can be argued that the switch from British to American investment in the South was associated with a movement into more modern and technologically advanced sectors, whereas the continuing dominance of Great Britain as a source of inward investment in the North meant the continued dominance of more traditional and slow-growing types of industry.

	1973	1990
As % total manufacturing employment		
Northern Ireland	53	39
Republic of Ireland	31	45
Share of British firms (%)		
Northern Ireland	74	57
Republic of Ireland	46	19
Share of US firms (%)		
Northern Ireland	20	23
Republic of Ireland	25	48
Share of Textiles & Clothing (%)		
Northern Ireland	31	34
Republic of Ireland	18	13
Share of Metals & Engineering (%)		
Northern Ireland	22	27
Republic of Ireland	20	46

Table 7.2 Externally-controlled Manufacturing Industry, Northern Ireland and Republic of Ireland, 1973 and 1990

Sources: Northern Ireland Economic Council 1992; Telesis Consultancy Group 1982.

Emerging Critiques of Inward Investment Policy

The early years of inward investment policy in the North (the 1950s and 1960s) and the South (1960s and 1970s) witnessed strong growth in employment in externally-controlled firms in both jurisdictions, leading to a general acceptance of the merits of such policy. However, with the external sector running into difficulties on both sides of the border, a growing volume of literature critical of the high level of reliance on inward investment, both North and South, began to emerge. There has been a marked similarity in many of the key criticisms of inward investment, which were articulated in both regions in the 1980s and early 1990s (e.g. Bradley and Dowling 1983; Hamilton 1993; Harris 1990; O'Malley 1989). These include the instability of employment created by externally-controlled firms; their lack of local linkages and local profit reinvestment; their narrow range of functions and emphasis on low-skill work; the high public cost of attracting and maintaining inward investment; and the relative neglect of indigenous industry caused by excessive focus on the foreign sector.

Perhaps the most trenchant critique of inward investment to appear in either jurisdiction was that contained in a review of industrial policy conducted on behalf of the Southern government's think-tank, the National Economic and Social Policy, by the American Telesis Consultancy Group

(Telesis Consultancy Group 1982). In a celebrated passage, Telesis summarized the drawbacks of the foreign manufacturing sector in the South as follows:

Foreign-owned industrial operations in Ireland with few exceptions do not embody the key competitive activities of the businesses in which they participate, do not employ significant numbers of skilled workers; and are not significantly integrated into traded and skilled sub-supply industries in Ireland. (1982: 151)

Telesis saw the package of attractions offered by the Irish government to inward investors as being too generous relative to what was being offered in other countries and recommended a major cutback in grant levels. While acknowledging the importance of the tax concession in attracting investment to Ireland, Telesis decried the concession as inhibiting the development of backward linkages in Ireland (as imports of inputs from affiliates abroad was crucial to the transfer price manipulation which allowed global profits to be concentrated in Ireland) and as hindering the location of R&D and administrative functions in Ireland (since it was more tax-efficient to set off the cost of these against tax liabilities in high-tax jurisdictions).

More fundamentally, Telesis questioned the long-term wisdom of an industrial development policy based largely on the attraction of inward investment: "No country has successfully achieved high incomes without a strong base of indigenously owned resource-based or manufacturing companies in traded businesses" (1982: 26). Accordingly, Telesis recommended a major shift towards the cultivation of indigenous industry in the application of the state's industrial development resources. Similarly, in the North there have been calls for a greater emphasis on indigenous firms and for measures to upgrade the functions of externally-controlled firms (Borooah 1993; Gudgin et al. 1989; Hamilton 1993).

In the South, criticism of the inward investment policy were accentuated in the 1980s when it became apparent that the output of foreign firms was continuing to grow strongly through the recessionary early years of the decade, despite significant job losses in the foreign sector (Department of Industry and Commerce 1990). It was now apparent that considerations other than economic recession, and particularly automation and new production technologies, were involved in manufacturing job loss. This posed a particularly serious challenge to an industrial policy that was primarily based on direct employment creation in manufacturing plants. Growing concern with the failure of industrial growth to translate into employment growth (the unemployment rate exceeded 21 per cent in 1987 despite the resumption of large-scale emigration) was the primary reason for the instigation in 1991 of a further major review of industrial policy.

The resultant report of the Industrial Policy Review Group (popularly known as the Culliton Report after the Group's chairman), published in 1991, reiterated the Telesis Group's call for a shift in the balance of the industrial promotion effort to the indigenous sector, berated the marginal progress which had been made in this direction since the publication of the Telesis Report and complained of a lack of commitment to the development of indigenous industry on the part of the relevant state organs (Industrial Policy Review Group 1992). The report called for a new approach to industrial development based on the cultivation of integrated industrial clusters along the lines advocated by Porter (1990). While these clusters would largely be built around Irish-based firms, the primary role of future inward investment should be to contribute to the functioning of these clusters rather than acting as stand-alone production operations. A similar approach to industrial development in Northern Ireland has been advocated by Clulow and Teague (1993).

Inward Investment and the Celtic Tiger

The growing chorus of criticism of the role of foreign investment in the South's economic development, which emerged in the 1980s and early 1990s was effectively silenced by the remarkable surge of new inward investment which occurred from 1993 on. Employment in foreign-owned manufacturing plants grew by more than one-third between 1993-2000. More significantly from a broader economic development point of view, the output of these plants almost trebled in real terms in the same period.¹ While indigenous manufacturing employment also grew significantly in this period, by 2000 the foreign sector accounted for 49 per cent of all manufacturing employment, compared with 43 per cent in 1990. Just two sectors accounted for virtually all of this growth—the electronics/information technology (mainly data processing and communications equipment) and pharmachems sectors, which had been identified for priority targeting by the IDA in the late 1980s.

A further key component of the 1990s inward investment surge was the international (i.e., export-oriented) services sector. The IDA had originally begun to support such activities in 1973, but they had remained a marginal element in the agency's portfolio until the late 1980s when significant growth in the software and financial services subsectors (the latter following the establishment of the International Financial Services Centre in Dublin in 1987) began to emerge. These continued their rapid growth through the 1990s, when they were joined by the teleservices sector, based on the centralization by a number of large transnational firms of their European telephone call centre activities in Ireland (Breathnach 2000). Overall

employment in international services grew from 12,000 in 1991 to 62,000 in 2000, of which growth foreign firms accounted for two-thirds.

The U.S. was by far the main source of inward investment into the South in the 1990s. By 1999 American firms accounted for 63 per cent of employment in IDA-assisted manufacturing and services firms. The share of the next most important source—the U.K.—was just 10 per cent. This late surge in inward investment is widely accepted as having been the main driving force behind very high economic growth rates, which saw Ireland being dubbed the “Celtic Tiger” (OECD 1999). The effects of the foreign sector on the indigenous economy have been greatly enhanced in two key ways. Firstly, while the proportion of foreign firms’ inputs sourced within Ireland has remained largely unchanged, the sheer scale of growth in the foreign sector has meant that the absolute level of local purchases has grown enormously—by three times in real terms between 1990–2000. Secondly, there has been a very considerable upgrading in the skill levels embodied in foreign firms’ operations in Ireland, reflecting the growing complexity and sophistication of the production technologies and products associated with these operations (Breathnach 1998). This has meant greatly increased wage and salary payments (which in 2000 were more than twice the 1990 level in real terms) with correspondingly greater multiplier effects arising from the spending of these salaries within the Irish economy.

While considerable debate surrounds the factors responsible for the 1990s surge in foreign investment in Ireland, undoubtedly of key importance has been the growing demand for technically skilled workers among transnational firms in those sectors targeted by the IDA since the late 1980s, and the availability of a significant reservoir of such workers in Ireland due to rising education levels among the growing numbers of young people entering the labour force following a baby boom in the 1970s (Breathnach 1998). Ireland has been a particularly attractive location for manufacturing firms producing differentiated products for segmented markets (e.g., medical devices and computers), subject to rapid technological change, involving sophisticated production technology and requiring a production base close to the western European market (Breathnach 2000). Alternatively, the development of information and communications technologies has allowed Ireland to be utilized as a cost-effective base for the provision of information-based services (financial services, teleservices, software development) to international markets (Breathnach 2000).

The Recovery of Inward Investment in Northern Ireland in the 1990s

Following a further dip in the early 1990s, new inward investment in the North picked up again as the decade progressed. This latest investment phase has had three distinguishing features.² Firstly, as in the South, a large proportion was in service activities, which now account for about 40 per cent of externally-controlled firms in receipt of assistance by Invest Northern Ireland, the new agency set up in 2002 to promote business investment in the province. Secondly, in the manufacturing sector, there has been a significant level of investment in knowledge-based high-technology sectors which helps explain the North's far superior manufacturing output performance compared to U.K. norms in recent years: between 1997 and 2001, manufacturing output increased by 22 per cent compared to an increase of only 3 per cent for the U.K. as a whole. Almost all of this output growth was accounted for by the electrical, electronic and optical equipment subsectors. These new activities have also helped transform the economy's sectoral profile: between 1995 and 2002 the proportion of manufacturing employees in the engineering and "other manufacturing" sectors rose from 46 to 57 per cent while that in clothing and textiles fell from 25 to 13 per cent. And, thirdly, much of the recent inward investment has emanated from the U.S. such that American firms now account for 29 per cent of externally-controlled firms compared with 33 per cent British.

Future Outlook

Both the North and the South experienced reductions in manufacturing employment in the early years of the 21st century. These are most likely a consequence of the general global economic downturn associated with the collapse of the dot.com bubble. At the same time, there have been certain features of recent job losses in the South in particular which may have more long-term implications. Indications are that these losses are occurring in more routine forms of manufacturing where labour costs remain important and which have come under increasing pressure with the general rise of labour costs during the last decade. At the same time, the IDA reports a continued brisk inflow of more high-tech investments in such areas as medical devices, pharmaceuticals and software.

With unemployment rates in the South having fallen to historically low levels, the IDA has moved away from its traditional mission of creating employment per se to a new remit of increasing the value added to the Irish economy via inward investment and of achieving a broader regional dispersal of inward investment. The latter consideration has arisen due to the strong tendency for recent foreign investment to locate in the larger urban

centres which contain pools of skilled workers and infrastructure appropriate to service-type operations.

Given the South's much greater level of success in attracting inward investment in recent decades, and the contribution this investment has made to raising living standards to west European norms, some attention has been devoted to the possibilities, in the context of the peace process, of the North entering into some form of collaborative arrangement with the South in terms of the promotion of inward investment (Hamilton 1995). A joint approach to industrial promotion could eliminate unnecessary competition and duplication of effort and might also force both sides to adopt a more critical and strategic view of the long-term role of inward investment in the broader economic development process. There will inevitably be considerable political opposition in the North to the idea of adopting an investment promotion agenda largely based on a model developed initially by the South. Furthermore, to the extent that the South's relative success in the attraction of inward investment has been dependent on the availability of a major tax concession, it would appear that a coordinated North-South approach, to be fully effective, would require the extension of this concession to the Northern jurisdiction. It is by no means certain, however, that this would be acceptable to the U.K. government, which has numerous other peripheral regions clamouring for inward investment.

Finally, there is the question of whether the pursuit of inward investment, whatever its qualities, is the best long-term approach to the development of peripheral regions. Although the quality of recent investment in both North and South has been a definite improvement on what went before, it still remains poorly integrated into the host economies and contingent on remote decision-making by people whose agendas may correspond little with Irish development needs. In the South, despite the entreaties of the Telesis and Culliton Reports, indigenous industry remains the poor relation in the industrial development effort. This is not to say that there has not been considerable achievement in the promotion of home-based firms and sectors. But, where small Irish firms have to compete for the attention of the functionaries of the state with the likes of IBM, Intel and Hewlett Packard, there is really no contest.

Notes

1. Output levels in foreign firms operating in the Republic of Ireland are exaggerated to a considerable but unknown extent, by the effects of transfer price manipulation. However, trends in reported output over time probably reflect the pattern of growth in real output in the firms concerned.
2. Most of the data in the following paragraph are taken from the Invest Northern Ireland website: <http://www.investni.com/> (accessed 10 June 2004).