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Japanese manufacturing investment in the Republic of Ireland

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Summary *The Republic of Ireland has attracted a disproportionate share of Japanese manufacturing investment in Europe. The evolution of this investment is outlined and some characteristics of Japanese plants in Ireland are considered. Finally, some factors likely to hinder the future flow of Japanese investment to Ireland are assessed.*

Introduction¹

Japanese foreign investment on a significant scale is a relatively recent phenomenon: in 1967, Japan accounted for a mere 1.3 per cent of the world total stock of foreign direct investment, as against 50.4 per cent for the United States and 15.6 per cent for the United Kingdom. A combination of Japanese government policy and the ability to penetrate foreign markets via exports of cheap home-produced goods had been primarily responsible for this. Since the late 1960s, however, there has been a rapid growth of Japanese direct investment overseas, so that its share of the world total had risen to 7.2 per cent by 1978, and has continued to rise since then. This development may be ascribed to a combination of factors, including a relaxation of Japanese government restrictions on overseas investment, the rapid rise in the value of the yen (which simultaneously made exports more expensive to sell and foreign assets less expensive to purchase), rising labour costs at home, and growing political resistance to Japanese imports in foreign markets.

Over half of the recent growth in Japanese foreign *manufacturing* investment has occurred in the more traditional metals, chemicals and textiles sectors, and has been mainly located in Asia and Latin America, where access to resources, protected markets and supplies of cheap labour has clearly been an important consideration. Investment in more advanced sectors, such as machinery and electrical/electronic equipment, has been primarily focussed on the USA. Thus, in 1981, the USA accounted for almost one half of Japanese foreign investment in the electrical equipment sector, compared with less than 10 per cent for Europe.

Overall, Europe has been in receipt of a very low level of Japanese direct investment in manufacturing—less than 9 per cent of the total in 1985, compared with 31.5 per cent for North America. Europe's share of employment in Japanese overseas manufacturing plants is much lower than this again (in 1978 it was less than half of the region's share of Japanese manufacturing investment abroad) reflecting the relative labour intensity of Japanese investments in the less developed countries. Indeed, so small is the number of Japanese plants in Europe that attempts to generalise from them must be extremely tentative: thus, Dicken (1983, 277–8) observes that four-fifths of Japanese investment in textiles in Europe is located in Ireland, and suggests that this may indicate an incipient tendency towards concentration. However, this four-fifths represents a single, albeit large scale, investment. Nevertheless, it may be observed that Japanese manufacturing investment in Europe covers a wide sectoral spread: in the case

of the EEC, the metals, machinery, electrical equipment, textiles, chemicals, and 'other manufacturing' sectors each accounted for over 10 per cent of the total in 1980.

The evolution of Japanese manufacturing investment in Ireland

Within the EEC, the Republic of Ireland has attracted a disproportionate share of Japanese manufacturing investment. In 1980, its share, at 18 per cent, was only slightly behind that of the UK (the EEC member state with the greatest share, at 19 per cent). This proportion, however, is rather distorted by the very large Asahi synthetic textiles plant (see below): at its peak level, in 1982, employment in Japanese plants in Ireland stood at 2,000, or one-third of the level suggested by Dicken (1983, 278) for the United Kingdom at that time. Nevertheless, this still accounted for 10 per cent of all employment in Japanese manufacturing plants in the EEC (prior to enlargement in 1986), as against Ireland's one per cent share of the Community's population.

The advent of Japanese manufacturing plants followed quickly from Ireland's accession to the EEC in 1973. As Dicken (1983, 280) has argued, the primary stimulus for Japanese manufacturing investment in the EEC has been the preservation of markets. From 1973, Ireland was able to add access to the EEC market to a wide range of other incentives in order to provide a very attractive investment location for Japanese firms. These additional incentives included export profits tax relief, generous capital and training grants, a plentiful supply of well-educated and highly-motivated workers at relatively low cost, support services provided by the Industrial Development Authority (IDA), a political environment extremely supportive of private—including foreign—enterprise, and—a consideration also highlighted by Dicken (1983, 282) in the particular context of Japanese investment—an English language environment (*Irish Times*, 28 April 1977; 16 June 1977; 6 March 1980). It has even been suggested that neutrality in the Second World War has worked to Ireland's advantage in terms of attracting Japanese investment in Europe (unnamed IDA spokesman, quoted in the *Irish Times*, 9 December 1977).

Japan became an important target of Irish efforts to attract foreign investment after 1973, including the opening of an embassy in Tokyo and the mounting of a major promotional campaign by the IDA. These initiatives realised four investments in the following three years, involving a disparate range of products (Table 1): manganese dioxide, integrated circuits, acrylic fibre and porcelain. Given their pioneering nature, these emanated, for the most part, from large, internationally established, parent companies.

By far the largest of these investments was the Asahi synthetic fibre plant, involving a capital investment of almost IR£50m—the largest single investment by a Japanese firm in Europe prior to the establishment of the Nissan car production plant at Washington New Town in England. Its establishment in Ireland coincided with the general slump of the synthetic textiles sector in Europe, and it has experienced severe difficulties from the beginning. It finally broke even for the first time in 1986, but only after major rationalisation and the writing off of accumulated losses of IR£39m in 1981. The commitment shown by Asahi to getting their plant into profit contrasts interestingly with the closure of three other major foreign projects in the textiles sector in this period in Ireland. This exemplifies the long-term attitude which Japanese firms in general tend to adopt as regards the realisation of profits from major investments (Dicken 1988). In addition, for Asahi the maintenance of a European base was seen as being 'geopolitically very important' (*Irish Times*, 16 December 1986).

The establishment of a plant to manufacture integrated circuits by the Nippon Electric Company (NEC), one of Japan's leading electronics firms, was regarded as a

Table 1 Japanese manufacturing firms in the Republic of Ireland

Firm	Product	Year production commenced	Fixed asset investment (IR£m) (current)	Peak employment
Mitsui Denman	Manganese dioxide	1974	11.2	160
Nippon Electric	Integrated circuits	1975	7.3	285
Asahi	Synthetic fibres	1977	48.6	480
Noritake	Porcelain	1977 ^{1,2}	3.5	300
Arklow Pottery	Pottery	1979 ³	N.A.	500
Nippon Denkai	Copper foil	1979 ²	1.5	30
Toho	Audio equipment	1980	4.8	100
Donegal Dairy Products	Cheese	1980 ¹	0.4	40
Fujitsu	Integrated circuits	1981	7.0	250
Sord	Personal computers	1982	7.1	100
Logic Systems	Microcomputers	1983	N.A.	< 50
Aval	Electronic components	1983	N.A.	< 50
Sawafuji	Audio equipment	1984 ²	1.0	20
Atari	Amusement games	1986 ⁴	0.5 ⁵	90

- Notes: ¹ Joint venture
² Since closed
³ Year of takeover by Noritake
⁴ Year of takeover by Namco
⁵ Original investment (1974)
N.A. Not available

coup by the IDA, not only in terms of attracting Japanese investment, but also in relation to a campaign, being mounted at that time, to develop the electronics sector in Ireland. NEC subsequently located a semi-conductor plant in Scotland rather than in Ireland. According to the firm, this was because they were 'not enthusiastic about placing too much reliance on one country' (*Irish Times*, 3 September 1980); however, it has been suggested (Kennedy 1983) that NEC decided not to locate the plant in Ireland after failing to obtain a major government contract which, it is alleged, was awarded to a French firm at a time when the Irish government was trying to get French government support for its policies in relation to Northern Ireland.

The Noritake porcelain venture was unusual, not only in terms of the product involved, but also in that the main target market was North America, rather than the EEC, and that the project was a joint venture with an established indigenous company, Arklow Pottery. Noritake obtained a minority shareholding in Arklow Pottery as part of the deal, and this was subsequently expanded into a controlling interest. The original porcelain venture proved a failure, while Arklow Pottery itself has been experiencing severe difficulties, requiring major rationalisation and employment reduction (see below).

After this initial spurt of Japanese investment in Ireland, there followed a period of inactivity, which coincided with a general slowdown in Japanese investment abroad in

the mid 1970s in the aftermath of the 1973 oil crisis (Dicken 1986). However, the upswing of the late seventies led to a renewal of Japanese interest in Ireland, mainly involving firms in the electronics sector (Table 1). Many of these projects were ambitious in their employment targets—ambitions which have fallen far short of realisation due to the slowdown in the electronic components market in the 1980s. Thus, the Fujitsu integrated circuits plant was originally projected to employ 1,100 workers by 1985, whereas actual employment had only reached 250 by the end of 1986. Similarly, the plant established by Sord (Japan's largest personal computer firm and manufacturers of the 'Orange' rival to the Apple company range) was projected to employ 500 by 1988, but has fallen well behind schedule.

The other Japanese plants established in this period were mainly offshoots of small parent firms expanding overseas for the first time. As Dicken (1988) has observed, small firms have been occupying an unusually prominent position in the Japanese foreign investment picture, with Japan's giant trading companies playing an important supporting role in this respect. In fact, the IDA has, since the late 1970s, been directing particular promotional emphasis to small Japanese firms employing 300 workers or less, which make up over 90 per cent of all Japanese manufacturing firms (*Irish Times*, 27 April 1978).

The current prolonged recession has led to a general reduction in foreign investment inflows to Ireland, and a virtual cessation of new Japanese projects (Table 1), apart from the small-scale and short-lived Sawafuji loudspeaker plant and the Namco takeover of the already-established Atari amusement game operation, apparently as a result of a rationalisation of Atari's parent company, United Technologies of the USA, following a takeover by Warner Communications. Indeed, the first Japanese closures have been experienced, although none was significant in employment terms. However, there has been a significant decline in total employment in Japanese firms, from a high of 2,000 in 1982 to about 1,500 at the end of 1986, due mainly to cutbacks at Arklow Pottery and Asahi. No doubt because of the luxury nature of its product, Arklow Pottery has been particularly badly affected by recession; having obtained a controlling interest in 1979, Noritake implemented a rationalisation programme which has seen employment reduced from 500 in 1975 to 150 in mid-1987, along with the closure of the associated Noritake porcelain plant, although losses have continued to accumulate (*Irish Times*, 13 June 1987). At Asahi, rationalisation has seen employment fall from a peak of 480 in 1982 to 350 at the end of 1986, in which year the plant broke even for the first time in ten years of operation (*Irish Times*, 16 December 1986).

Characteristics of Japanese manufacturing plants in Ireland

While the proportion of Japanese investment in Europe which has located in Ireland is quite high, such investment represents a rather insignificant share of total foreign manufacturing investment in Ireland. At end-1985, Japanese firms accounted for a mere 1.35 per cent of all foreign firms, 2 per cent of employment in foreign firms, and 4.3 per cent of capital investment by foreign firms (*Irish Times*, 18 November 1986). Despite the Asahi distortion, Japanese investment was less than 10 per cent of that originating in the USA, and was also less than the level of UK, German, Dutch and Canadian investment.

Surveys of the operations of foreign manufacturing firms in Ireland have not distinguished the particular characteristics of Japanese firms, due to the rather insignificant proportion of the total which they represent. However, there seems little reason to expect them to differ from the general pattern of foreign investment in Ireland, which

includes a heavy emphasis on limited-skill assembly operations, little or no research and development, and few material linkages with the indigenous manufacturing sector; this is particularly the case with the electronics sector, in which the bulk of Japanese investments in Ireland have been concentrated (Telesis Consultancy Group 1982).

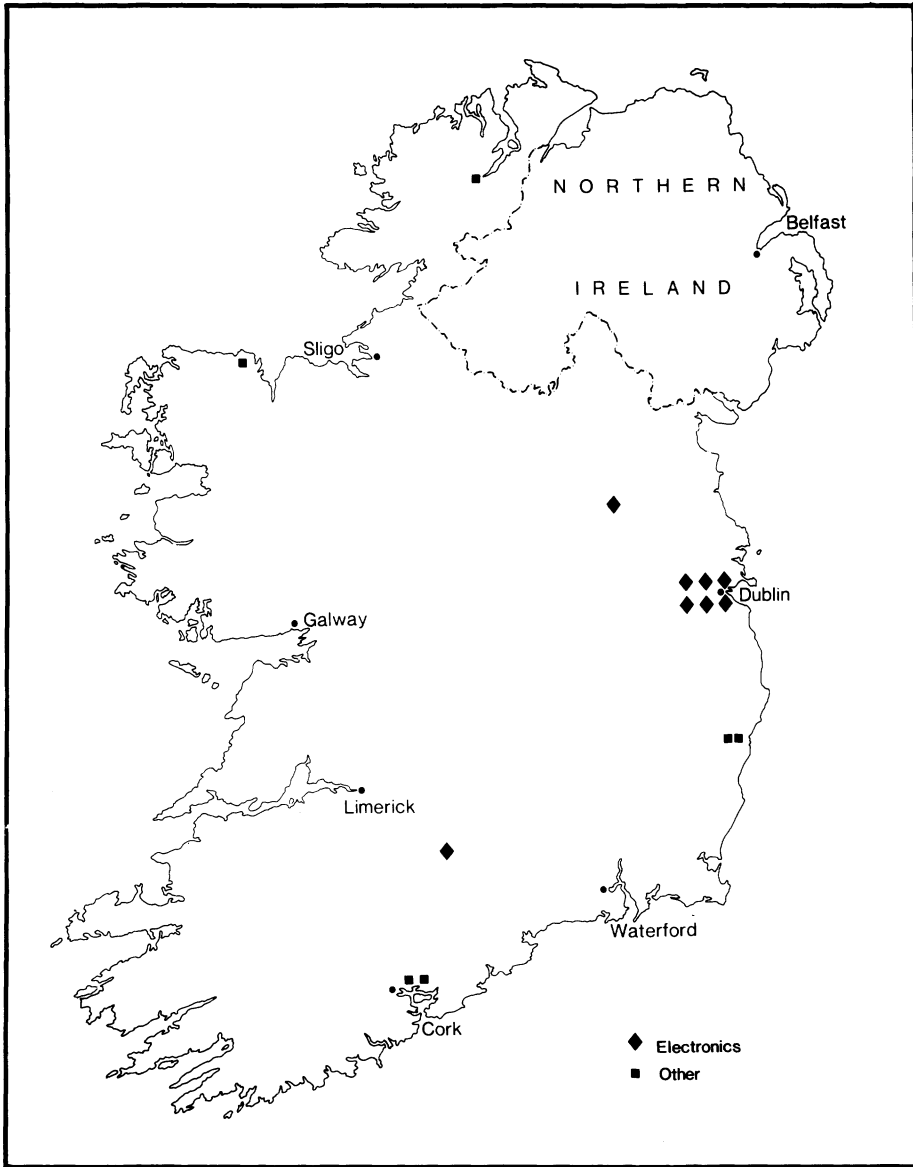
One report states that Japanese firms conduct 'virtually no research and development in Ireland', ascribing this to language and communications factors (*Irish Times*, 16 December 1986). The most significant of the Japanese firms in the electronics industry in Ireland, NEC, carries out only assembly and testing at its Irish plant, obtains most of its materials from Japan, and distributes its products via the company's West German marketing subsidiary (information supplied by firm).

Dicken (1983, 279) has noted that, in the past, Japanese firms have shown a strong preference worldwide for effecting foreign investments via joint ventures, a mechanism which—at least in theory—should facilitate an amount of technology transfer and local spin-off. In the Irish case, the only two joint ventures have involved low-technology operations (cheese and porcelain). While the limited level of development of the indigenous Irish manufacturing sector may be put forward as a reason for the lack of joint ventures with Japanese (and, indeed, other foreign) firms, it is notable that the great majority of Japanese investments in the United Kingdom have also taken the form of wholly-owned subsidiaries (Dicken 1983, 279). One suspects that the Japanese preference for joint ventures in the past may have been due to lack of experience in overseas investment and political/legal requirements (particularly where domestic markets are the primary targets of such investments, in contrast with the export orientation of Japanese investments in Ireland).

One is wary of attempting any observations on the locational pattern of Japanese firms *within* Ireland (Map 1), given the small total of 14 involved. However, a strong orientation towards the Dublin region, particularly of electronics firms, is evident, which is in direct contrast to the general tendency among foreign investors over the last 25 years (Breathnach 1982). Thus, the western rural regions—the major growth area of foreign investment—have been largely avoided, apart from the Asahi plant, whose location was determined to a considerable extent by water-supply and effluent requirements, and the Donegal Dairy Products joint venture, where access to raw materials has been the principal locational factor. However, it may be observed that the IDA has, in recent years, been encouraging the location of electronics firms in general in the Dublin area, in order to counteract the major shake-out of employment of older industrial sectors in that area in the 1970s, which has not been matched by new industrial growth (partly because of earlier positive discrimination in favour of other regions on the part of the IDA itself). Thus, in the period 1973–81, manufacturing employment in the East region (dominated by Dublin), which accounted for 47 per cent of the national total at the beginning of the period, declined by 15 per cent, while it grew by 19 per cent in the remainder of the state (calculated from data in Gillmor 1982, 41).

Future prospects for Japanese investment in Ireland

The IDA has, in the mid 1980s, launched a further major campaign to attract Japanese investment to Ireland, with the objective of securing a further 35 projects by 1990. There has, however, been a switch in emphasis, with software firms now constituting the principal target. Three major manufacturing projects have been recently announced. One of these—Yamanouchi—is thought to represent the first major foreign investment by the Japanese drugs industry. It is scheduled to begin production of an ulcer drug in a IR£20m plant in Dublin in 1988. The other projects—Seibulite



Map 1 Locations of Japanese manufacturing plants in the Republic of Ireland

(reflective plastic sheetings) and Munekata (tools/plastic moulds)—will also be located in the Dublin region.

However, a number of factors is likely to work against Ireland's prospects of attracting further Japanese investment. For those Japanese firms (especially smaller ones) which continue to prefer the joint venture route for penetrating European markets—and, despite the UK evidence quoted earlier, this route appears to be still quite popular (Kennedy 1983)—Ireland, for reasons already mentioned, will offer few attractions. A

factor with potentially much more serious implications for Ireland is the EEC's growing trade deficit with Japan (Kennedy 1983). As a proportion of Japanese exports to the EEC, EEC exports to Japan declined from 73 per cent in 1970 to an alarming 35 per cent in 1982 (Baumann 1984, 3), with only a slight improvement to 37 per cent in 1985 (Commission of the European Communities 1987, 6). Political pressures to correct this imbalance have included calls for an accelerated rate of Japanese investment in the Community. However, going on Dicken's (1983, 282) argument that 'political factors will be more decisive in influencing the location of Japanese manufacturing investment in Europe than the purely economic', such investment is likely to be focussed on those member states with the largest trade deficits with Japan. Ireland, apart from being a relatively minor trading partner of Japan, compared with the major EEC member states, also happens to have a healthier trade balance: Ireland's exports to Japan in 1986 represented 51 per cent of exports in the opposite direction (*Irish Times*, 28 April 1987).

Finally, the entry of Spain to the EEC in 1986 could also negatively affect the flow of Japanese investment to Ireland. Spain was already, prior to EEC membership, the leading host country of Japanese investment in Western Europe, with 18 wholly-owned production units representing a total investment of some \$200m (*Irish Times*, 20 March 1985). In addition, there were 50 joint ventures between Japanese and Spanish firms. While much of this investment will have been generated by a desire to gain access to the substantial but (prior to EEC entry) heavily-protected Spanish market, the prospects of further penetrating the much larger EEC market from a Spanish base will undoubtedly greatly enhance the attractiveness of Spain as an investment location for Japanese firms. To this should be added a series of other Spanish attractions, including availability of skilled workers, low wage levels (by EEC standards), declining inflation, and tax benefits (*Irish Times*, 20 March 1985). The considerable experience already gained by Japanese firms from operating in Spain seems likely to play an important role in generating further Japanese investment there, particularly as informal 'word-of-mouth' communications between firms are thought to play an important part in influencing Japanese overseas investment decisions (*Irish Times*, 28 April 1977). Spain, therefore, is likely to prove a major future rival to Ireland as a low-cost export base for penetrating the EEC market.

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Note

1 This section relies heavily on Dicken (1983, 1986, 1988). Gratitude is expressed to Peter Dicken for making the latter reference available in advance of publication.

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