

The copyright of this thesis vests in the author. No quotation from it or information derived from it is to be published without full acknowledgement of the source. The thesis is to be used for private study or non-commercial research purposes only.

Published by the University of Cape Town (UCT) in terms of the non-exclusive license granted to UCT by the author.

**Ireland's Industrial Policy in an Integrated Global Economy:
The Case of the Celtic Tiger in the 1990s.**

BY

BRONAGH CASEY

CSYBRO001.

**A minor dissertation submitted in partial fulfillment of the requirements for the
the award of the Degree of Master in Social Science Degree.**

Department of Political Studies.

University of Cape Town.

2004

CONTENTS.

<i>Declaration.</i>	iii
<i>Abstract.</i>	iv
<i>Acknowledgements.</i>	vi
1. Introduction.	1
2. International Relations and the Nation-state.	5
2.1. The Nation-state.	5
2.2. International Political Economy.	7
3. Globalization	9
3.1. Globalization definition	9
3.2. Economic Globalization.	12
3.3. The Multinational Corporation.	13
3.4. Rise in Globalization and the Multinational Corporation.	16
4. The Two Theories.	17
4.1. Liberalism.	18
4.2. Mercantilism.	19
5. Is the Nation-State becoming an anachronism?	21
5.1. The Liberal/ Hyperglobalist perspective.	21
5.2. The Mercantilist/ Sceptics perspective.	27
5.3. Riding the Crest of Globalization.	33
6. Ireland and Globalization	34
7. Ireland and the Flexible Developmental State.	36
8. Ireland's Historical Background.	40
8.1. Recession.	40
8.2. Free Trade.	41
8.3. 80s Gloom.	44
8.4. An Economic Turnaround.	45

9. The Role of the Government and State Agencies.	47
9.1. Government Participation.	47
9.2. The IDA.	50
9.2.1. IDA History.	50
9.2.2. The Role of the IDA.	52
10. Ireland's Industrial Foreign Investment Strategy	57
10.1. Targeting and Agglomeration.	58
10.1.1 Computer Industry- IT and Software.	60
10.1.2 Health-Care Industry.	64
10.1.3 International Financial Services.	66
10.1.4 Winning Industries.	67
10.2.1. Incentives.	70
10.2.1. Internal Factors.	71
10.2.1.1 Corporate Tax Rates.	71
10.2.1.2. Quantity and Quality of Human Capital.	76
10.2.1.3. Competitive Wages.	81
10.2.1.4. Infrastructure.	86
10.2.2. External Factors.	89
10.2.2.1. The European Union and Structural Funds.	89
11. Conclusion.	95
<i>References.</i>	102

Declaration.

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

Signed by candidate

Bronagh Casey.

Cape Town, February 13, 2004.

Abstract.

The research of this paper focuses on Ireland's economic development in the 1990s.

The central question of this paper is to demonstrate how the Irish government developed an industrial strategy that would create and attract a large amount of Foreign Direct Investment. (FDI).

Two critical concepts serve as analytical focal points. Firstly I look at economic globalization and the debate surrounding the sovereignty of the nation-state. I set up as the null hypothesis the liberalist assumption that the nation-state is in demise, and have to surrender its power to global market forces. The alternative hypothesis, the mercantilist perspective, argues that the state is not in demise and is still the primary actor in the international system. In this regard, I look at Irish government policy and the degree of influence in economic development from 1987-2000.

The second concept focuses around industrial policy. This includes the participation of state institutions in industrial strategy, such as the Industrial Development Authority. I also focus on the model that the Irish government followed in order to pursue FDI. The 'Closed Loop' model consists of three stages: firstly, to select industry areas offering the best economic returns; second, to find the best companies in those industry areas; and third, to persuade their target companies to invest in Ireland. Industrial policy includes

the range of incentives and policy decisions the government undertook in order to attract Multinationals to Ireland. This includes policy decisions on areas such as education, tax, infrastructure, wages and spending of structural funds.

Through a literature review of the two concepts regarding Ireland's growth, I conclude that the Irish government has been deeply involved in the entire process of integration. This paper supports the mercantilist hypothesis that the state still remains the primary actor in the international economy. It also supports the view that the state can manipulate and exploit globalization in order to maximize its own interests. Irish economic development in the 1990s is a prime example of this.

University of Cape Town

Acknowledgements.

I would like to express my gratitude to several people. To Prof. Robert Schrire, for the guidance and advice throughout my dissertation process. I would like to thank Dr. Harry Stephan, who has lectured and inspired me since 1999, and for the help he has given me to achieve this. Thanks also to Prof. Annette Seegers, for her invaluable teaching and to Dr. Michael Mulreany, lecturer in the Institute of Public Administration, Dublin, for giving me the opportunity to study in Ireland.

Although these people did not have any direct influence on my dissertation, I am very much indebted, firstly to, Mrs. Petite Stewart, my Matric History teacher, who encouraged me to pursue the academic discipline of Political Studies. To Michelle Hughes and Claudia Russo, I wish to thank you for all your support in my post-graduate years. My profound thanks go to my parents and family. My parents have always believed that education is the key to one's future and I love and thank them for their guidance and all the opportunities they have given me. Last and not least, I thank God for giving me the ability to achieve this.

1. Introduction.

“National prosperity is created, not inherited.” (Porter, 1998:155)

Globalization has become the centre of attention in most International Relations studies and particularly in the study of International Political Economy. The implications of globalization on the study of International Relations are great. Globalization affects the very core of our studies: the nation-state. It is not surprising then, that this issue has created a lot of controversy and debate within our discipline.

Globalization is leading to the problem of constraint, where globalized forces are impinging greatly on state activity. The concern of many is whether these global forces are having any influence over the continuing strength of the state. In other words, the nation-state's very survival is being questioned. Within International Political Economy studies, there are two theories that can be used to view and interpret the effects of globalization on politics and the nation-state. These theories are known as the 'mercantilist' theory, and the 'liberal' theory. Using these theories I will be looking at how economic globalization, and particularly the multinational corporation, is impinging on state activity and how it affects the sovereignty of the state.

My null hypothesis is the liberalist perspective, which argues that multinationals are controlling the bargaining power of the state, where the state is giving up its power to

market forces. They strongly believe that the nation-state's survival is at an end. On the other hand, the alternative hypothesis is the mercantilist perspective, which argues that the nation-state is, and will remain the primary actor in the international system. For mercantilists it is not the market that is manipulating the state, rather the state is manipulating the market in order to maximise its own interests and grow economically.

In the last decade, Ireland has created considerable interest regarding its economy. Since the early 1990s, Ireland has moved from being one of the poorest countries in the industrialized world, to one of the richest in the EU. (Sweeney, 1999:227) In 1999, the *Economist Outlook*, described Ireland's economic performance as "stunning" and "astonishing". (Sweeney, 1999:80) Ireland; once the 'sick man of Europe', is now hailed as the 'Celtic Tiger'. (Smith, 2002:125) The metaphor, the 'Celtic Tiger' was created in 1994 by Morgan Stanley, and has become the fashionable neologism for the Irish economy. (Murphy, 1998:2)

The Irish Republic is of particular interest in discussions regarding globalization. Ireland has been cited as an example of how states can flourish in a globalized world by many academics, economists, and journalists across the globe. (Smith, 2002:125) Ireland's journey from economic stagnation to growth, has shed light on the validity of the globalization thesis. Ireland's economic development has challenged the liberalist claim that the nation-state is losing its power to market forces. Instead, Ireland corresponds well with the mercantilist claim that the state is manipulating the market.

Through a literature review, this paper examines how Ireland managed their small economy, creating an industrial strategy that would attract Foreign Direct Investment, in order to economically grow.

First, the concept of the nation-state and the International Political Economy is analysed and how intellectuals perceive the definition of economic globalization. The role of the Multinational (MNC) or Transnational Company (TNC) in the international system is examined, stating its key role in the international economy.

Secondly, I discuss my null hypothesis and hypothesis, exploring the differences between the liberalists and the mercantilists and their view of the nation-state in the global economy. This explores the idea that the multinational corporation is threatening the survival of the state, where governments become clients of the MNC and the global economy. It also explores the idea that governments are becoming completely dysfunctional in managing their own economies.

Thirdly, I assess Ireland's position in the global economy, including its history and its role as a small, developmental state. Although this paper does not address developmental theory in detail, it does touch on the idea of the Flexible Developmental State. In this case, Ireland is a flexible developmental state, as it uses neo-liberal strategies of development, yet remains fairly strong in making decisions about its economy.

Fourth, the paper enquires into the role of government and the Industrial Development Authority in industrial policy-making. The state effectively moved from a highly protectionist state, to an active, state-led industrial policy which sought out FDI, using the MNC as a tool for economic development. (Sweeney, 1999:111). The model used in this strategy is known as the 'Closed Loop' model, which effectively sought out specific industrial areas, its most successful companies and then produced a number of incentives and campaigns to effectively attract investment. Ireland's economic policy is also consistent with Michael Porter's examination of the five roles that governments should play in their economies.

The paper then looks at the different industrial sectors the IDA and the government pursued, and how smaller companies were enticed to invest, because of the agglomeration of other big companies in their specific fields. Finally, the paper examines how the Irish government attracted foreign direct investment. Industrial policy includes the range of incentives and policy decisions the government undertook in order to attract Multinationals. This includes policy decisions on areas such as education, tax, infrastructure, wages, participation in the European Union and the spending of structural funds.

This essay concludes by supporting the mercantilist hypothesis. How the state wishes to deal with the problem of constraint lies in its power as a sovereign, which acts as a provider of order and security. Therefore instead of surrendering to the forces of globalization, the Irish state challenged them and embraced its principles, by opening up

its economy, integrating itself into the world market, and creating a stable macroeconomic environment that is suitable for investment.

2. International Relations and the Nation-State.

International relations deals primarily with the interaction of the members of the international community of nation-states, or with the behaviour of the political system. Within this system, there are three main issues in which to concentrate upon, that of anarchy, order and constraint. (Rodee, 1970:572) With the advent of modernization, many changes have occurred in some aspects of international relations, and globalization is one of them.

The changes that have occurred create a certain degree of interdependence and entangle most states into a series of ordered relationships that they do not control. This leads to the problem of constraint, where it impinges greatly on state activity at the national state level. International relations focuses on the problems governments face in seeking to influence the external factors affecting their own societies. Interaction of states is deeply affected by the impact of international relations on domestic policy, as well as politics on economics, and economics on politics. (Lieber, 1991:8)

2.1. The Nation-State.

In 1648 the 'Peace of Westphalia' was signed. From it emerged the territorial state, a sovereign body exercising predominant authority within its geographical borders.

(Lieber, 1995:19) Once a state is recognized as a sovereign entity, then others are obliged to refrain from intervention in its affairs. (Williams, 1994:82) Sovereignty primarily has been linked with the idea that states are autonomous and independent from each other. (Krasner, 2001:2)

Thomas Hobbes saw the political purpose of the sovereign state as the establishment of order based on mutual relations of protection and obedience. The sovereign acted as the provider of security and the citizen in turn offered allegiance and obedience. (Devetak, and Higgot, 1999:485) The strength of the Hobbesian state does not depend either on the autarky of its economy or the autonomy of its economic management, or even any conventionally understood democracy, but rather on the strong legitimacy of the state as the guarantor of order. (Brown, 1998:9) This created a social bond between the citizens and the state, and the purpose of the sovereign state in modern political life was to stabilize the social bond.

In the beginning of the 17th century, the industrialization process involved the investment of rural surpluses in new urban centres. The state had to centralize its control with regards to this process, to ensure necessary labour discipline, and then to manage the processes of economic change. The sovereign state thus governed the mobilised cultural nation and functioned as the autonomous manager of the integrated national economy. (Brown, 1998:1)

After World War II, led by Germany and Japan, the most advanced nations shifted their efforts from controlling territory to augmenting their share of world trade. As capital has become increasingly mobile, advanced nations have come to recognise that exporting is no longer the only means to economic growth, one can instead produce goods overseas for the foreign market. As more production by domestic industries takes place abroad, and land becomes less valuable than technology, knowledge, and direct investment, the function of the state is being further redefined. By the 1980's a new political prototype had been formed: the trading state. Rather than territorial expansion, the trading state held trade to be its fundamental purpose. (Rosecrance, 1996:46)

2.2. International Political Economy.

The current global situation, and the advent of globalization, has implications on the study of the international political economy, which is the study of the tension and interaction between the market and the state, or in other words, the tension between economics and politics. (Balaam and Veseth, 1996:6) On the one hand, we have the nation-state, whose primary source of power is its control over access to territory, which involves access to its internal market, investment opportunities, and sources of raw materials. On the other hand, we have the multinational corporation, with its capital, technology, and access to world markets. (Gilpin, 1992:296) Globalization is making those that study International Political Economy to question the problem of constraint, where economic forces and particularly Multinational corporations, are said to be impinging greatly on state activity.

Political scientists have tended to neglect the role of markets, and economists often ignore the political context of events and the importance of power. However the relationship between the two is becoming very important and is crucial in making sense of the international politics of energy. (Lieber, 1991:326) States and markets do not always conflict, but they do overlap to a certain degree, where their tension is apparent. States influence markets and markets influence states. States and markets interact because the boundary between what happens to wealth (the market) and what happens to power (the state) is sometimes ambiguous and constantly shifting. (Balaam and Veseth, 1996:7-8)

The International Political Economy is a network of bargains between and among states and markets, which determine the production, exchange, and distribution of wealth and power. Susan Strange looks at bargaining power in terms of what she calls 'relational power' and 'structural power'. Relational power is, "the power of one player to get another player to do something." However, more importantly is structural power, which Strange defines as "the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and their scientists and other professional people have to operate." (Balaam and Veseth, 1996:13)

There are three main IPE theories that one can use to view and interpret the effects of globalization on politics, and specifically economic globalization and the state. These theories are broadly termed 'Mercantilism', 'Liberalism', and 'Marxism.' (Balaam and

Veseth, 1996:15) For the purpose of this essay, my focus will be on the theories of Mercantilism and Liberalism. Before I explore these theories, an understanding of what globalization, and specifically economic globalization, entails is essential.

3. Globalization

3.1. Globalization Definition.

Globalization is a term that came into use in the 1980s, in connection with the huge surge of foreign direct investment by multinational corporations. (Gilpin, 11:2000) Since then the term has been very widely used and has become a term open to much description, approval and abuse, and usually refers to many different things. (Cable, 1999:2) An analysis on the literature on globalization, reveals that there are a great many disagreements on the different meanings attributed to the concept 'globalization'. Some use the concept to describe the changes that have taken place since the fall of the Berlin Wall, and the end of Communism, others give it a more restricted technological and cultural or economic meaning. (Schire, 2000:1) Because the term can mean so many different things, a study on its features is important to understand its significance and meaning, and how one can conceive the term 'globalization'.

Anthony Mc Grew provides a concise two-part definition of Globalization:

“Globalization signifies the multiplicity of linkages and interconnections that transcend nation-states, and societies which currently make up the modern world system. It is a process through which events, decisions, and activities in one

part of the world can come to have significant consequences for individuals and Communities in quite distant parts of the globe.”

(Schrire, 2000:2)

Mc Grew's definition runs counter to the neo-realist conception of the state, and a broader, regional or civilization conception. His definition relies on the formulation of two other theorists, that of Anthony Giddens and David Harvey. Giddens characterizes globalization as the trend toward "time/space distancing" or the "intersection of presence and absence". This ultimately means that local circumstances around peoples lives are having less of an impact and hold on peoples lives than are the more distant circumstances, which are gaining importance. (Chikuhwa, 2000:15) Giddens writes that modern institutions are no longer interacting face to face on the local level, in this new 'globalized world' individual relations with institutions are now taking on an 'absent' role, where they are located in distant parts of the globe. (Chikuhwa, 2000:15)

Harvey, on the other hand, focuses on a "time/space compression" which translates that people and their relationship with the world have become smaller. Since the 1960's this time/space compression "has had a disorientating and disruptive impact on political and economic practices, the balance of class power, as well as upon cultural and social life. (Chikuhwa, 2000:16)

Mc Grew's definition goes even further by introducing "scope" and "intensity". Mc Grew argues that as human and social activities are stretched across the globe, our interactions

and interconnectedness become intensified. This definition suggests the existence of a process that transcends the nation-states and their interaction. (Chikuhwa, 2000:16)

Veseth is able to explain globalization in more operational terms:

“Globalization is the process of economic, political and social change that occurs when all agents in a system have access to a common pool of resources. The idea of the common resource pool is meant to include Markets for capital, goods and services, but it also encompasses science, technology, and cultural goods.” (Schrire, 2000:2)

At the most general level, globalization refers to a process of change which affects all regions of the world in a variety of sectors including the economy, technology, politics, the media, culture, and the environment. (Castles, 2001:20) Four broad characteristics are often associated with the globalization process, and these include: The rapid spread of information through technological innovations, the expansion of transnational corporate activity, the multiplicity of linkages and interpenetration of states and society, and lastly, globalization presents a challenge to the concept of the nation state. (Chikuhwa, 2000:17)

This essay will be looking at the process of change that is occurring within ‘economic globalization’, and more specifically at two of the characteristics of globalization, that being the expansion of transnational corporate activity (The Multinational Corporation) and the challenge globalization presents to the concept of the nation state, concerning the problem of constraint.

3.2. Economic Globalization.

'Economic Globalization' is said to be the most important characteristic of the globalization process. After the collapse of Communism in 1989, liberal democracy, which constitutes liberal politics and liberal economics, is assuming a position of global hegemony. (Chikuhwa, 2000:29) Since then, capitalism, a product of liberal economics, is expanding and causing major changes in the structure, cohesion and functioning of the world economy. (Went, 2000:22) Economic globalization can be defined quite simply as, "the integration of economies around the world". (Cyr, 2000:2) It is a process of accumulation by global capitalism, a constant process of expansion into new frontiers and opportunities for increasing capital accumulation at the global level. (Farazmand, 1999:5)

Schrire argues that a genuinely globalized economy would have three major characteristics: Firstly, world production and distribution of goods and services would be globalized, where transnational corporations (or MNCs) would decide what to produce, where to produce it and how to produce it on a global scale. The second characteristic is that world finance would be globalized, where the global pool of capital would be allocated irrespective of geography or political boundaries in order to get maximum return. Schrire's last characteristic of a globalized economy can be seen by the fact that the major economic players would be transnational in that their equity and ownership would be dispersed globally. (Schrire, 2000:2)

The principle entities of the international economy are the national economies. Trade and investment produce growing interconnections between national economies. Such a process involves the increasing integration of more and more nations and economic actors into the global market. (Hirst and Thompson, 1996:8) The international economy is an aggregate of nationally located functions. While there is an increasing range of international economic interactions (financial markets and trade in manufactured goods), these tend to function as opportunities or constraints for nationally located economic actors. (Hirst and Thompson, 1996:10)

The global economy raises these nationally based interactions to a new power. The international economic system becomes “autonomized and socially disembedded, as its markets become truly global.” (Hirst and Thompson, 1996:10) Felice states the ideological principles that underlie economic globalization which include: the primacy of economic growth, the removal of all restrictions of trade, the removal of government regulations which infringe on the market, the promotion of voracious consumerism, and the elevation of the transnational corporation (TNC) or multinational corporation (MNC) as the key actor in worldwide development. (Felice, 1999:586)

3.3. The Multinational Corporation.

It is generally accepted that the modern corporation is the key player in the modern economy, domestic or global. (Schrire, 2000:4) Fieldhouse defines the MNC as “an enterprise which owns and controls income-generating assets in more than one country”. (Fieldhouse, 1995: 165) The existence of the MNC can be best explained by identifying it

as a “multiplant firm that sprawls across national boundaries”. (Caves, 1995:152)

Multinational Corporations are being touted as the major vehicle for Foreign Direct Investment (FDI) flows in the fast evolving economic order. FDI flows through the MNC network are becoming increasingly important compared to international trade. (Chisinga, 2001:61) The distinguishing characteristics of a MNC, described by Gilpin, is that they are “an oligopolistic corporation in which ownership, management, production and sales activities extend over several national jurisdictions.” The MNC comprises of a head office in one country with a cluster of subsidiaries in other countries. (Gilpin, 1987:232)

Corporations, in their quest to secure the most cost-effective manufacturing bases and reach new markets in a competitive business environment, have increased their exports and have been investing in overseas operations at an unprecedented rate. International capital has become very mobile, and nowadays corporations think nothing of breaking up their chains of production and locating other links all over the world which would ultimately favour them by decreasing production costs and by opening up products to the developing market. (Hertz, 2001:33)

In some sense MNCs have always existed, such as the Dutch East India Company. The substance of the MNC has existed for more than a century, but it was only twenty-five years ago that it was given a special name within the framework of foreign direct investment. (Fieldhouse, 1995:165) However these transnational corporations often tended to operate in a stateless space, even though their operations were far-flung and global. Most of these MNCs connected their European economies, with their colonial

economies. (Schwartz, 1994:241) These types of firms operated in a way in which, when they dealt with local or host states, they were often simply dealing with the extensions of their metropolitan state. These corporations rarely crossed national boundaries; they usually acted within a single legal space, operating primarily in their own colonies.

(Schwartz, 1994:241)

Most of these early Multinationals engaged themselves in the extraction of raw materials that could not be produced back in their home economies. But after World War II, these patterns were broken and a new type of manufacturing began to emerge. Firms started to invest in other developed countries in manufacturing that was not in the raw materials or agricultural periphery. There was a great shift from extraction to manufacturing. By the 1980's only about one-quarter of foreign direct investment was for raw material extraction, while about a half was for manufacturing and another quarter for services.

(Schwartz, 1994:244)

Raymond Vernon describes the Multinational Corporation as having attributes that include some of the rights of natural persons, such as the right to own and owe, and the right to sue and to be sued. They can also create offspring without limit, generate siblings needed, and even experience death and reincarnation. (Vernon, 1971:14) Vernon describes the utility and purpose of the Multinational Corporation as "to make and sell products", but at the same time "they sit uncomfortably in the structure of long-established political and social institutions. The MNC sprawls across national boundaries,

linking the assets and activities of different national jurisdictions with an intimacy that seems to threaten the concept of the nation-state as an integral unit.” (Vernon, 1971:15)

Caves recognizes three types of Multinational corporations: Firstly there is the ‘horizontally integrated MNC’, which turns out the same line of goods from its plants in each geographic market. This type of MNC establishes plants in different countries to make roughly the same type of similar goods. Second, there is the ‘vertically integrated MNC’, which produces outputs in some of its plants that serve as inputs to other of its plants. Lastly, there is the ‘diversified MNC’, which is the diversified company whose plants outputs are neither vertically nor horizontally related to one another. (Caves, 1995: 140)

3.4. Rise in Globalization and the Multinational Corporation.

The economic climate has changed throughout the last few centuries. The current economic climate, and the forces of globalization, are rapidly revolutionizing the international system with regard to politics and economics at a global level. In 1963, the value of world exports stood at US \$154 billion. This grew to US \$1 trillion in 1977, and to around US \$4 trillion today. This growth is not just in goods, but also in services. US \$1.29 trillion’s worth of commercial services were exported in 1998. (Mills, 2000:38)

The A.T. Kearney/Foreign Policy Globalization Index measures that for the US alone, financial markets and cross border flows of bonds and equities are 54 times higher than in 1970, where Japan has multiplied 55 times, and Germany 60 times. (Foreign Policy, 2001:59)

MNCs are a definitive sign of globalization and an important part of the process of economic development. (Porter, 1990:679) The number of global corporations has increased from 3,500 in 1960, to 40,000 in 1995, representing 40 percent of the world's total commerce. (Farazmand, 1999:5) Multinational corporation sales have more than doubled from \$2.4 trillion to \$5.5 trillion, between 1980 and 1992. (Stalker, 1995:18) Strategic alliances between globalizing enterprises have risen, and the global waves of successive mergers and acquisitions have produced a full scale 'fusion', reaching 6,000 in 1995, with an aggregate value of \$229.4 billion. (Farazmand, 1995:5) The greatness and enormity of the multinational corporation can be best put by Noreena Hertz, where she says that, "the hundred largest MNCs now control about twenty percent of global foreign assets, and fifty-one of the hundred biggest economies in the world are now corporations, only forty-nine are nation-states." (Hertz, 2001:7)

4. The Two Theories.

As mentioned earlier, there are two theories that one can use to view and interpret the effects of globalization on politics, and specifically economic globalization and the state. These two theories are known as 'liberalism' and 'mercantilism'. Using these theories one can look at how globalization is said to be leading to the problem of constraint, where multinationals are impinging greatly on state activity, and how governments face these external corporations that are affecting their societies. (Lieber, 1991:8)

4.1. Liberalism.

Without going into the history of liberalism, and its evolution from Mill, Keynes and the conservatives of Thatcher and Reagan, Liberalism today is a view of International Political Economy (IPE) that sees markets as more important as states. (Balaam and Veseth, 1996:56)

Liberalism may be defined as a 'doctrine and set of principles for organizing and managing a market economy in order to achieve maximum efficiency, economic growth, and individual welfare.' (Gilpin, 1987:27) According to this view, the nation-state is becoming an anachronism because of the increase in economic interdependence and advances in technology. (Gilpin, 1992:288) Liberals also believe that bargaining advantages are always on the side of the multinational corporation. They stress that the nation-state has little with which to bargain, as the corporation has vast resources and flexibility. (Gilpin, 1992:296)

The liberal view comes down heavily on the side of the market when choosing sides between state and market. (Balaam and Veseth, 1996:43) Liberals are opposed to state restrictions on free international markets, where they have a 'hands off the market' attitude. They believe that free individual actions in production, finance and knowledge structures create such strong ties of mutual advantage among nations that the question of state security is irrelevant. In a liberal world, nations become part of a 'universal society' united, not separated, by their national interests. (Balaam and Veseth, 1996:45)

Liberals fear the heavy hand of government and seek to liberate the individual from state oppression. Vaclav Havel believes liberalism is, "a system in which complete independence and plurality of economic entities exist within a legal framework, and its workings are guided chiefly by the laws of the marketplace." (Balaam and Veseth, 1996:40) Liberals see the Multinational Corporation as the 'critical transmission belt of capital, ideas and growth', all freed from the nation-state. (Gilpin, 1992:291)

4.2. Mercantilism.

Mercantilism was the first important International Political Economy (IPE) perspective. It grew out of the developments related to the rise of the nation-state at the beginning of the 17th century. In the past mercantilism accounted for the desire of states to generate trade surpluses to increase their wealth. (Balaam and Veseth, 1996:21)

Mercantilism accounts for one of the basic compulsions of all nation-states: to create wealth and power in order to enhance independence and national security. It can be defined quite narrowly in terms of, "state efforts to promote exports and limit imports, thereby generating trade surpluses to create wealth and power." (Balaam and Veseth, 1996:21) Gilpin describes mercantilism's central idea as being, "that economic activities are and should be subordinate to the goal of state building and the interests of the state." (Gilpin, 1987:31) In other words, it is "the attempt of governments to manipulate economic arrangements in order to maximise their own interests, whether or not this is at the expense of others." These interests may be related to foreign or domestic concerns.

(Gilpin, 1992:293) Mercantilists differ from the liberals, as they see restrictions on free international markets as tools for concentrating wealth and distilling power. (Balaam and Veseth, 1996:44)

Neomercantilism, accounts for the ways in which states attempt to create political and economic advantages for its industries. Neomercantilists argue that states intervene and influence developments in their domestic economies and the international economy, in order to maintain their wealth and power. They fit in closely with the realist strand of thought, where in the international system where there is no single sovereign to guarantee the security of the nation-state, the state is necessarily involved in a struggle to benefit as much as it can from market forces and transactions, for the sake of national security.

(Balaam and Veseth, 1996:25)

Realists and Mercantilists, believe that the nation-state is the primary actor in the international system because they are the highest unit of sovereign political authority. They do differ on the emphasis of security, where realists stress the importance of military interests to render the state secure, while mercantilists believe that a viable economy is essential if a state is to be able to purchase the weapons necessary to secure itself. (Balaam and Veseth, 1996:31)

5. Is the 'Nation-State' becoming an acronym?

The phenomenon of 'economic globalization' is sweeping the world and growing in size, and the nation-states very survival is being questioned. Concern has arisen with regards to the dominating and controlling nature of this new hostile and competitive market, particularly the role of the MNC.

When looking at the question of control and domination of the MNC over the state, and how it is leading to the problem of constraint, I will be following the theories of liberalism and mercantilism. Many people that are involved in the debate over the future of the nation-state also refer to these two camps as the 'hyperglobalists', who fall into the liberal camp, and the 'sceptics', who follow along the same lines as the mercantilists.

5.1. The Liberal/Hyperglobalist Perspective.

Economic globalization raises questions about the authority the state still exercises over the modern day MNC. The state is the primary focus in International Relations studies, so therefore there is concern over the apparent threat to the nation-state, and even the threat over it becoming obsolete altogether.

In 1977, Hedley Bull wrote in his acclaimed book, 'The Anarchical Society', that the TNC (or MNC) has been seen as a case "of a larger phenomenon threatening the survival of the state system." (Bull, 1997:270) He recalls the argument that these organizations,

because they bypass the states system and contribute directly to the knitting together of the global economy, are bringing about the state system's demise. (Bull, 177:27)

Heightened flows of goods, capital, labour and information across national boundaries are believed to have 'shrunk' the globe. This process is said to be undermining national sovereignty, in the sense that individual states must now submit to the demands of global forces. (Smith, 2002:125)

More recently, Theodore Levitt, Robert Reich, Kenichi Ohmae and Susan Strange, have suggested the decline of state authority in general. Strange writes in her book 'The Defective State' that, "State authority has leaked away, upwards, sideways, and downwards. In some ways it seems to even have gone nowhere, just evaporated." (Douglas, 1997:2) Reich writes, "When it comes to global managers, no group of citizens, no government, has a special claim." (Douglas, 1997:2) Ohmae concludes that the "nation-state has become an unnatural, even dysfunctional unit for organizing human activity and managing economic endeavour in a borderless world." (Douglas, 1997:2) These statements, and many more, are just the beginning of the wave of critics foretelling the decline of the state and traditional authority.

Hyperglobalizers are an example of these critics. Hyperglobalizers believe that globalization represents a new epoch in human history, in which all types of relationships are becoming integrated at the global level, transcending the nation-state and making it increasingly irrelevant. (Castles, 2001:20) They hold that globalization is a mechanism for the rule of international investors and multinational corporations, who can no longer

be controlled by the ever-weaker nation-state. (Castles, 2001:20) They believe that states are stripped of their efficiency before global market forces. In this 'borderless world', the ruthless competition imposed by global financial markets, and the benefits derived from the international economy, overwhelm the preferences of domestic citizens and impose a single standard of political economy and a narrow range of acceptable behaviors upon all states. (Lynch, 2000:93)

Hyperglobalists, see the nation-state as weak and irrelevant in the face of the power of 'footloose financial capital'. They believe that states have limited autonomy to shape their own policies because they cannot risk capital flight. (Dearlove, 2000:112)

Regulating international economic activity for instance becomes very hard in the face of unfettered exchange flows and in a world where up to a third of all international trade takes place within multinational corporations. (Bohman, 1999:508) The flexibility, mobility and vast resources of the corporations give MNCs the advantage when dealing with nation-states. A multinational corporation always has the option to move its production and business elsewhere. (Gilpin, 1992:289) The bargaining power of the MNC is just too big for the state.

Whenever the nation-state tries to exert control over economic globalization, economic actors flee its borders, and thus its sanctioning power. Even if sanctioning economic actors is one way to maintain a semblance of normative order, nation-states are reluctant to use that power for fear of loss of competitiveness. (Bohman, 1999:508) The nation-state also becomes the loser in terms of employment, corporate resources, and access to

the world market. For the liberals, the multinational corporations are thus escaping the control of nation-states. (Gilpin, 1992:289)

Fluid movements of capital, labour and information have undercut the importance of territorial control. (Cyr, 2001:4) Reinicke describes the markets as defying the territorially fixed nature of the nation-state, by creating its own 'non-territorial space'. (Coleman, 2000:3) Global money has no loyalty or attachment to any space, nation, or community of people. Unlike in the past, when money and its distribution were mainly territorial and promoted domestic communities, (i.e. Jobs and commercial activities) global money has now loosened its link to territorial finance, facilitated by the cyberspace of banking computers. (Farazmand, 1999:5) The internationalization of capital is a new phase of capitalism in which the universalization of the law of value breaks down national barriers, allowing the concentration and centralization of capital and production to proceed unimpeded by the traditional obstacles and limits of the nation-state. (Costilla, 2000:4)

Thomas believes that globalization is transforming the authority and capacity of states to set the social, political and economic agenda within their respective territorial boundaries. Decision-making authority is now been ceded to actors such as the Multinational Corporation. (Thomas, 1999:2) Noreena Hertz, in her controversial book, "The Silent Takeover", describes how corporations are taking on the responsibilities of government. She believes that the political state has now become the corporate state, where the role of

government and the nation-state is simply to provide the infrastructure in which big businesses can operate with increasing freedom and power. (Hertz, 2001:11)

According to Hertz, governments, in order to pursue big business, are giving up in the process their ability to set an independent agenda by favouring corporate giants over individual citizens. Governments depend on the success of the private and export sector for creation of jobs, wealth and stability, therefore they do not just sit back and let the market take its own course. (Hertz, 2001:66) Governments are now acting as salesmen, promoting their own countries for possible investment, and promoting the fortunes of their own corporations. Hertz says that governments, "court corporations, sponsor their causes, pander to their needs. Rather than aiming to limit their activities, governments are allowing the corporations to shape them and their policies." (Hertz, 2001:104)

Similarly, Ulrich Beck points out, "Crucially important decisions about food, media and the environment, for example, are taken by multinational corporations, and not by elected governments". (New Statesmen, 1999:1) He believes that governments are indeed seeing their role as not so much as regulators of the private sector, but as champions. Only in this way can they attract the investment needed to maintain economic prosperity. National politicians thus become sales people, hustling for business, offering tax breaks and subsidies. As for the nation-state and democracy, it slowly vanishes. (New Statesmen, 1999:1) The big decisions have migrated beyond national borders and beyond any government's control. Governments thus become clients of the Multinational

Corporation, rather than the other way around, where they control and dominate the nation-state. (New Statesman, 1999:1)

Denationalization of the state has become a definitive sign of the globalization process. Denationalization of the state signifies an almost absolute surrender to the interests of capital and financial speculation. It is seen as undeniably diminishing the regulatory capabilities of the state regarding the national political economy. John Holloway believes that, "under the domination of big finance capital, the nation-state is a weak mediator, it is more of an administrator of the general interests of capital than a representative of the national society." (Costilla, 2000:10) He further argues that as long as the state remains under the control of big capital, it will be unable to develop its capacity for relative institutional autonomy. Ultimately, the denationalization of the state deprives societies of their elementary right to shape their own destinies. (Costilla, 2000:10)

As mentioned earlier, Thomas Hobbes sees the sovereign state as provider of security, and in return the citizen of that state would offer its allegiance and obedience. Thomas Hobbes called this a social bond between the citizen and the state, and saw the purpose of the sovereign state to stabilise that social bond. However, it is argued, that material changes associated with economic globalization, especially the processes of liberalization, deregulation and integration of the global economy in the domains of production, exchange and finance, are said to be affecting the ability of the sovereign state to stabilise the social bond. (Devetak and Higgot, 1999:487) As the coordinates of modern social and political life alter, states (the traditional Westphalian site of authority)

are supplemented, outflanked and sometimes overrun by competing sources of authority. (Devetak and Higgott, 1999:487)

There are indeed indications that multinational corporations are affecting the control and domination of the state over globalization forces, even indications that the roles have become reversed. Multinational corporations are increasing their power over governments, and the social bond between citizen and state is slowly diminishing. For the liberals and hyperglobalists globalization is leading to the problem of constraint. It is impinging greatly on state activity, an impingement that could see the demise of the nation-state.

5.2. The Mercantilist/Sceptics Perspective.

The debate over the future of the nation-state is a very controversial one. As mentioned in the previous section Susan Strange, Theodore Levitt, Robert Reich and Kenichi Ohmae, are just a few of the experts which contend that the nation state is in demise. It is easy to become convinced by such names as these, however, a look at the other spectrum of the debate might just convince some, that their comments are perhaps a bit premature.

Firstly, advocates that contend that the state is not in decline, such as Linda Weiss, Ethan Kapstein, Paul Hirst, and Stephen Krasner, believe that the globalization process is not a new phenomenon. They acknowledge the high level of cross border flows of trade, investment and labour, but argue that there is nothing new about this. They state that international economic integration in the period preceding the First World War is

comparable with current levels. (Castles, 2001:21) The level of trade for the major powers, such as the UK, Germany, France, Japan and the US, was much the same as it is today, and the level of capital flows were very high. (Sweeney, 1999:130) The multinational corporation is also not a new concept. The English East India Company had a great impact with regards to the global economy in the 18th century, so big was the impact, that it is comparable with the big MNCs of today. (Bull, 1977:271)

In some ways, international capital movements were more significant in earlier periods than they are now. During the 19th century, Latin American states (and to a lesser extent Canada, the United States, and Europe) were beset by the boom and bust cycles associated with global financial crises. The Great Depression, which had a powerful effect on the domestic politics of all major states, was precipitated by an international collapse in credit. The Asian financial crisis of the late 1990s was not nearly as devastating. (Krasner, 2001:4)

At first glance there is a popular notion that globalization is "tied together in a single electronic market moving at the speed of light." (Foreign Policy, 2001:59) A closer look at global integration shows that it is growing no more rapidly than it has been for years. A drop in trade, due to a series of a number of financial crises in Asia, Latin America and Russia during the late 1990s, weighs particularly heavy in this slowdown. (Foreign Policy, 2001:59)

The sceptics and mercantilists within this camp believe strongly that states are retaining much more influence and power than globalization enthusiasts like to admit. (Lynch, 2000:93) They believe that politics remains essentially a national affair, where the role of the nation-state remains as strong as ever. (Castles, 2001:21) While states have always been confronted by international constraints, they have retained sufficient autonomy and capacity to pursue national agendas. (O'Riain and O'Connell, 2000:312) Gilpin believes that at the end of the twentieth century "the system of nation-states is actually expanding, and societies throughout the world are seeking to create strong states capable of organizing and managing national economies. Although MNCs influence international relations to some extent, the economic and military efficiency of the state remains predominant over other actors." (Gilpin, 1987:46)

To counteract the hyperglobalist and liberal claim that the nation-state is weak and irrelevant in the face of the power of 'footloose financial capital', sceptics such as Garrett claim that, "nation-states policies are never a simple function of external constraints and so cannot be 'read off' from that needs of 'footloose financial capital'." (Dearlove, 2000:113) Diversity, and the fact that nation-states make different policy choices with regards to the same global phenomena suggest that globalization and external constraints have 'not wiped out the significance of the domestic story.' (Dearlove, 2000:113)

The liberals strongly believe that MNCs do have control over the state because they can so easily relocate at any given time. (Bohman, 1999:508) According to John Stopford, there are compelling reasons for some multinationals to stay put. Some multinationals

often find themselves 'locked' into emerging hot-spot 'clusters' of related assets and specialized infrastructure, such as Silicon Valley for microprocessors. These immobile resources are comprised of a dense network of specialized, independent enterprises that supply 'crucial inputs and are difficult to replicate elsewhere'. MNCs are encouraged and forced to interact with these clusters if they are to retain and gain access to the latest thinking. (Stopford, 1999:1) Stopford argues that another reason why MNCs are reluctant to uproot their operations is that they "depend upon the skills of specialized teams of local workers. To ensure investment in their companies, MNCs that are dependent on human assets must continue to maintain and strengthen these human assets, not walk away from them." (Stopford, 1999:1) Unlike international portfolio investors, who can exit a country at the tap of a few computer keys, FDI investors find it very difficult to exit a country. (Pei and Lyon, 2003:80) In most cases it may be more expensive for an MNC to exit the country, as it loses what it may have invested in each plant. It is very hard for an MNC to quickly liquidate its investments, such as factories and equipment. The cost of 'exit' is more expensive than capital to pay higher taxes. Exit is often threatened, but rarely executed for these reasons. (Smith, 2002:129)

Sceptics do believe that MNCs have a key bargaining chip when dealing with host governments, as they have the option not to invest in that particular state. However, their control after deciding to invest in a particular country has been exaggerated. Once multinationals enter a country, they are to some degree, locked in by commitments that they have made to develop local operations and provide job training. MNCs need access to local skills and other resources such as hot spot clusters. (Stopford, 1999:6)

There have, however, been periods of volatility. Malaysia is a prime example of this. In the 1970s Malaysia had a strong presence of foreign MNCs, but the government's New Economic Policy included plans for discriminatory ethnic controls. After the announcement of these new controls, many of the foreign MNCs concluded that the government had abandoned its favorable investment climate. A significant number of the MNCs decided to cut back on capital spending, closing some plants, and moving money offshore. However one must stress that these instances are rare, and most governments would not and do not implement extreme policies such as those of the Malaysian government. Governments want to attract and keep FDI, not scare it away. (Stopford, 1999:5)

Any country that chooses international economic integration implicitly accepts constraints on its actions. The sceptics and mercantilists do not deny this, however, they believe that the liberals are exaggerating the claim that integration means 'absolute surrender to the interests of capital and financial speculation'. The idea that these constraints wither away the state's capacity to tax, regulate or intervene is also wrong. Rather, integration accelerates the market's responses to policy by increasing the range of alternative options available to those affected. These constraints imposed on governments could even be desirable. (Wolf, 2001:7) Wolf states, "Integration into the global economy, and the leap towards globalization is ultimately a deliberate choice of the nation-state, and not an ineluctable destiny, it cannot render states impotent, their potency lies in the choices they make." (Wolf, 2001:4)

Sceptics have elaborated that the state's integration into the international economic market was a deliberate choice. (Wolf, 2001:7) Many countries prefer to provide multinational corporations with access to their territory because of the advantages they believe it brings them in providing capital, employment or an infusion of technology. This is because they choose to do so, or otherwise they would of denied access altogether. (Bull, 1977:272) Economic integration would not have been possible without the necessary condition of technological progress. The state made a deliberate choice concerning the advancement in technological progress. Without the assistance of state actions and inactions, it would not have been released. (Schrire, 2000:6)

As mentioned earlier, the multinational corporation is a key player in the modern economy. It is believed that the multinational corporation is undoubtedly driving the globalization process, redefining the role of the nation-state. The mercantilists and sceptics believe that corporations may operate globally, but they still remain legal entities authorized by national political authorities. They remain state-based, and even remain dependant on the state in many ways. In a world with strong neomercantilist elements, they rely heavily upon their governments to prise concessions from major potential trading partners, such as China. (Schrire, 2000:6)

Sovereign states have displayed a considerable ability to stand up to multinational corporations, to deny them access altogether, or to impose restrictions on their activities. (Bull, 1977:271) For the mercantilists and sceptics, it is the government that manipulates

economic arrangements in order to maximise its own interests. They believe that the nation-state still remains the primary actor in the international system, and it is not nearly ready to become an anachronism.

5.3. Riding the Crest of Globalization.

The territorial state as a socio-political identity will continue to exist. The relationship between market and politics, and capitalism and the state, has been an intimate one. (Farazmand, 1999:8) The efficient functioning of the market depends on a strong nation-state as does the state need capitalism to flourish. To protect the system from periodic collapse and to provide safety nets for promoting capitalist development, market failures demand government intervention in the economy, although many liberals would disagree. (Farazmand, 1999:7)

Richard Rosecrance describes the state as, "riding the crest of globalization." (Rosecrance, 1986:2) The state is using globalization to its advantage. Governments can, and do shape globalization to their national and international advantage. (Mills, 2000:62) Integration into the global market is necessary to keep a state strong and powerful, to ensure that they can provide for their citizens and to maximize its own interests. States make different policy choices, trying to benefit from market forces for the sake of their national well-being, without losing their sovereignty and control. States play a big role in the international economy in order to economically grow. (Sweeney, 1999:131)

A sovereign state cannot formally be subject to any external jurisdiction without its own consent. (Armstrong, 1999:559) A state would surely not let these forces in, if it were to lead to its own demise. Integration does not necessarily mean an absolute surrender of the state to market forces, such as liberalists claim. Instead governments ask themselves, "How can our country exploit globalization and the growth of international trade." (Sweeney, 1999:131)

6. Ireland and Globalization.

Globalization affects all states in the International economy, however its implications are particularly profound for small open economies, such as Ireland. (Nolan, O'Connell and Whelan, 2000:1) Large, core states play a critical role in generating processes of internationalization, whereas small states are pushed to adapt to these changing conditions. (O'Riain and O'Connell, 2000:311) Liberalists argue that small states are said to be totally dependent upon the forces of globalization to shape their economic systems and have neither the power nor the influence to shape external developments. (Schrire, 2000:12) In causal terms, Schrire describes the differences between the large core states and the small, weak states; "large, core states such as the United States operates as the independent variable while globalization is the dependent variable, for small states, globalization is the independent variable and their policy choices the dependent variable." (Schrire, 2000:9)

However, successful adaptation for smaller states is possible, and may depend on an active and effective state, rather than on the neo-liberal strategies prescribed by the dominant institutions in the global economy. (O’Riain and O’Connell, 2000:311) Ireland is seen as an example of this and how a highly interventionist state can promote adaptation to the internationalization of the economy. (O’Riain and O’Connell, 2000:311) Small states that are successful in adapting to internationalization of economic processes can create the basis for further extension of those processes. This can be achieved by providing new locations, labour forces and institutions that can support transnational economic processes, such as the growth of MNCs within one’s country. (O’Riain and O’Connell, 2000:311)

Since the late 1950s Ireland has pursued an uninterrupted strategy of increasing integration into the world economy. Its success has not been the consequence of neo-liberalism and the forced withdrawal of the state; rather its success is because the state has been deeply involved in the entire process. (Nolan, O’Connell and Whelan, 2000:2) The state has been managing both the economic development and the political welfare of the state, by a strategy of industrial development that has involved the opening up of goods and capital markets as part of the long-term process of EU integration. (Nolan, O’Connell and Whelan, 2000:2)

Economic activity is still largely shaped by local and national factors, which are heavily influenced by national states. The state can still act to promote economic development, even in this era of globalization, by mediating connections between the local and the

global and “influencing how local-specific assets are mobilized within the range of opportunities that are available in the global economy”. (O’Riain and O’Connell, 2000:312) The state plays a role in promoting economic development, by shaping the capabilities of society and the market to compete internationally. (O’Riain and O’Connell, 2000:312)

7. Ireland and the Flexible Developmental State.

Globalization presents a new challenge to critical development theory. The theory of the developmental state is relatively weak in explaining the role of the state in newly emerging economies, such as Ireland. (O’Riain, 2000:6) States are now agreeing to distribute resources and allocate economic roles through free markets. States are also participating in the global economy as pragmatic and strategic actors in a much more restricted game that is governed by free trade. (O’Hearn, 2000:2) Integration into the global economy and the opening up of state borders has changed the economic game. States are now specializing in what one can do without the aid of protectionism and privatization, and instead, are concentrating on policies that will exploit the current economic system to maximize their own interests. (O’Hearn, 2000:2)

O’Riain argues that a developmental state needs to be fairly flexible in order to be successful in the globalized economy. The theory of a Flexible Developmental State (FDS) is “part of a broader effort to theorize a global networked economy and polity, an

effort that has spread across the social sciences. It attempts to locate state development strategies within a new international order, one that is dominated by a neoliberal globalization project but still contains the economic and political space in which to create development strategies out of combinations of the local, national and global.” (O’Riain, 2000:8) The state is therefore using neoliberal strategies as far as integration and the global economy is concerned: yet the state remains fairly strong in respect to making policy decisions about its economy.

The state is neo-liberal as it avoids manipulating prices, trade barriers and exchange rates. But it also intervenes in a more localized and flexible manner that suits the competitive conditions of industries, such as information technologies of the 1990s. (O’Hearn, 2000:10) According to O’Hearn, “the state combines a neoliberal macroeconomic environment that attracts capital with corporatist policies of social partnership between employers union and other civil organizations, which enhances flexibility.” (O’Hearn, 2000:10) The main characteristics of such an environment are low taxes and wages, fiscal restraint, and also include targeted state programs in education, training and infrastructure. (O’Hearn, 2000:10) O’Riain suggests that the current success of Ireland in the globalized economy, is based on a Flexible Developmental State. (O’Riain, 2000:18)

Growth in Ireland is driven by two distinct modes of integration into the global economy, the partial local embedding of global corporate networks and the increasingly successful integration of local networks of indigenous firms into global business and technology networks. These two globalizations are further embedded with the help of a set of

national neocorporatist institutions that have managed the relation to the global economy of both the macro economy and of unionized workers. (O'Riain, 2000:18)

Flexible state structures are also characterised by significant decentralization, close ties to social constituencies, and a high degree of flexibility in the relations between the units of the state apparatus. (O'Riain and O'Connell, 2000:314) Rather than a cohesive and relatively insulated national apparatus, the flexible state consists of a state apparatus that is deeply embedded in a 'network polity', forging socio-political alliances out of constantly shifting local, national and global components. (O'Riain and O'Connell, 2000:314)

The FDS model of development is built around a 'loosely coupled' organizational model. (O'Riain, 2000:8) At the enterprise level, the flexible developmental state performs everyday micro-intervention in the economy through a state agency. (O'Hearn, 2000:10) These state agencies are avowedly pro-enterprise, using their good relations with foreign investors to identify opportunities for local entrepreneurs. (O'Hearn, 2000:10)

There is a decentralization of state agencies. These agencies have a certain amount of autonomy, however, they do have a close relationship with the state. The state can change the goals, composition and even the existence of these developmental agencies, as the need for development and change in world market occurs. (O'Riain, 2000:8) The agencies are made accountable by the constant monitoring by their social constituencies and by formal evaluations from within the state bureaucracy. (O'Riain, 2000:8) The

agencies' locations within the state give them an essential degree of legitimacy and cohesiveness. They remain potentially accountable to national goals, and bureaucratic norms and processes continue to provide valuable standards of accountability and professionalism. (O'Riain, 2000:8)

There are three prime state agencies in Ireland that target economic development. Firstly, the *Industrial Development Authority (IDA) Ireland*, is the state agency with the closest ties to foreign capital, *Enterprise Ireland* has a diverse set of connections to indigenous networks of innovation and *Forfas* provides overall policy coordination. The Department of Trade, Enterprise and Employment, together with the Taoiseach (prime minister) have close ties to national employers and labour organizations. The agencies have significant internal flexibility in their dealings with their constituencies (O'Riain, 2000:7) This paper will mainly concentrate on IDA Ireland and the role of the government.

The three modes of integration into the global economy have been discussed previously. This paper will concentrate on the first mode of integration, that being 'attracting foreign direct investment', and how the flexibility of the state helped attract investment, namely the IDAs participation and state decisions. The character of state intervention and its organizational and institutional underpinnings remains close to the FDS model. (O'Riain, 2000:20)

8. Ireland's Historical Background.

8.1. Recession.

Ireland has not had an easy journey towards economic success. Its economic history has been plagued with depression, recession and failed economic plans. In 1922, after years of opposing British rule, the modern Irish state was founded. It was essentially a rural economy, primarily based around its agriculture sector. Historically, Ireland had always been in the shadow of Britain economically. Britain benefited greatly from the Industrial Revolution, because of its close large markets and its coal and iron industries. However, Ireland found it very difficult to compete with the power of British industry and remained primarily agricultural. (Sweeney, 1999:230)

Ireland had not developed a strong industrial base, and after independence it consisted of only a small number of manufactures, largely in traditional sectors such as food, drink and textiles, catering exclusively for the home market. (Economy of Ireland, 1998:1) In 1931, Ireland adopted protectionist measures, as did many European countries. The Great Depression had led to the spread of protectionism across many industrial countries, which began a process that was to shift the economy of Ireland from a free trade environment, to one of the most protected in Western Europe. (Durkin, 2000:34)

Protectionism and the pursuit of self-sufficiency became key objectives for the Irish governments plan for national economic development. (Mac Sharry, 2000:18) The

Government favoured economic self-sufficiency and worked towards the development of an indigenous industrial sector. (Cassidy, 2002:13) In 1932, the Irish government introduced the Control of Manufacturers Act in an attempt to develop indigenous industry. The act was designed to prevent foreign ownership and investment in Ireland, by ensuring that Irish citizens controlled 51 percent in voting shares in manufacturing firms. (Hyland, 1998:2)

8.2. Free Trade.

Protectionism and the government's national economic plan didn't prove too successful. By the end of the 1950s it was clear that the strategy to develop Ireland's indigenous industry through protectionist measures was clearly not contributing to economic development. Industry was stagnating and opportunities for employment had become limited. (Economy of Ireland, 1998:1) Between 1951 and 1958, the economy grew less than one per cent annually. (Mac Sharry and White, 2000:21) Ireland's closed economy model impeded rather than facilitated the expansion of industry. The high tariff walls and the ban on foreign ownership of industry were designed to help native firms develop, but these restrictive measures continued to shield domestic industry from the spur of foreign competition. Protectionism produced very small plants, serving a small market and imports began to rise dramatically. Costs became greater and the Irish economy remained static. (Durkin, 2000:35) In the rest of Europe, protectionism was diminishing. European economies achieved strong and sustained growth as they moved towards free trade measures, while the Irish economy stagnated. (Mac Sharry and White, 2000:19)

After the Second World War, the US included Ireland in its Marshall Plan. When Ireland received Marshall Aid, it also agreed with the US government that it would pursue a series of policies that would enhance the country's export earning capacity. These policies primarily focused on moves to open up the economy to free trade and foreign investment, and to introduce inducements to foreign investors such as investment grants and tax holidays. (O'Hearn, 2000:5) Another requirement for Marshall Aid was that all recipients were required to join the Organization of European Economic Cooperation, which in turn required its members to liberalize their trade by removing quotas and tariffs. (O'Hearn, 2000:5)

In 1958, the government finally announced its "Programme for Economic Expansion", which recognized that a more outward looking strategy was needed in Ireland if the economy was to develop. (Durkin, 2002:36) The new policies, together with Marshall Aid policies, were to change a "small closed economy looking in on itself, into a small open economy looking outwards on the world, embracing free trade and abandoning protection." (Mac Sharry and White, 2000:16) The strategy included: 'the provision of investment incentives and tax concessions to stimulate industrial investment, the attraction of foreign export-orientated manufacturing enterprises, and a transition to free trade.' (O'Sullivan, 2000:201) Foreign Direct Investment was encouraged by tax relief via a zero rate of tax on profits and substantial industrial grants. (Mac Sharry and White, 2000:20)

The state became a key actor in attracting foreign investment, which was to become a dominant policy goal for the next forty years. The new strategy was based on “a particular understanding of the opportunities and constraints associated with an increasing openness to the international economic environment.” (Nolan, O’Connell and Whelan, 2000:2) Ireland had a good locational advantage, very generous tax incentives and grants, and a transnational-friendly environment. (O’Riain, 2000:10) In 1965, Ireland signed the Anglo-Irish Trade Agreement, which led to an increase in foreign investment. (Hyland, 1998:2) Full integration into the international economy has been a mantra of Irish economic policy since this period. (O’Riain and O’Connell, 2000:315)

By the end of the 1960s Ireland had become an industrialized nation. Many foreign firms had begun to penetrate the Irish borders. However, indigenous industry suffered as cheap imports flooded Irish markets after the removal of protection. (O’Hearn, 2000:5) Many Irish companies were forced into competition with the foreign firms, causing Irish firms to close down, especially in the clothing, textile and chemical industries. (Hyland, 1998:2)

When Ireland joined the EEC in 1973, Ireland became an export platform for US companies seeking access to the European markets. Ireland was an attractive site because of its large grants, low taxes, cheap but educated English-speaking labor force and its ‘hands off’ attitude to business. (O’Hearn, 2000:5)

8.3. 80s Gloom.

By 1973, the Irish economy was fully employed and had experienced its fastest sustained period of economic growth, 4.4 percent per annum from 1960-1973. The 'outward looking policies' that were initiated in 1958 had proved successful, especially in relation to foreign direct investment. (Durkin, 2002:36) However, things soon began to change, and between 1973 and 1986, the Irish economy was characterized by volatile growth rates, rising unemployment, the resumption of emigration, high inflation and fiscal crisis. (Cassidy, 2002:15) External developments impinged heavily on the Irish economy. The 1973 oil crisis, when OPEC states dramatically raised energy prices, hit Ireland badly. The resulting world recession cut demand sharply and raised inflation. Again in 1979, oil-producing countries raised energy prices, and inflation took off again in Ireland, reaching 20 percent in 1981. (Mac Sharry and White, 2000:202) The two oil-price increases marked the end of the fast growth era in the industrial world. (Durkin, 2002:38)

In the 1980s, the Irish economy was experiencing a severe economic recession. Many TNCs left Ireland in the 1980s, as part of their global restructuring programme. Unfortunately, only a few new foreign investments replaced them. (O'Hearn, 2000:5) High interest rates eroded investor confidence worldwide, multinationals soon began backing out of their host countries, and foreign investment once more dried up. (Mac Sharry and White, 2000:202) There was negative growth, which caused unemployment rates to approach 20 percent, and many of the educated Irish were emigrating at a rapid

rate in the hope to find employment elsewhere. (O' Hearn, 2000:5) According to Mac Sharry and White, by the mid-1980s, "the government was over-borrowed, the people were over-taxed, the economy was under performing, and unemployment and emigration soared." (Mac Sharry and White, 2000:357)

In 1987, the minority Fianna Fail government returned to power, and inherited an economy on the verge of bankruptcy. Ireland's unemployment rate was the second highest in the developed world and the national debt had doubled in four years. (Kirby, 2001:72) Some policy changes needed to be made. A new Industrial policy was formulated, a policy that would turn the Irish economy around.

8.4. An Economic Turnaround.

By the end of the 1990s, Ireland's economy turned full circle in just a few years, just by integrating itself into the global economy. (O' Hearn, 2000:5) The Irish state played a critical role in turning the Irish economy around from one of despair to that of an innovative and growing economy. (Gaburro and O'Boyle, 2003:97) Ireland became the showpiece for globalization.

Figures prove this turnaround. In the 1990s Ireland had one of the best performing economies in the industrialized world. The size of Ireland's economy doubled between 1987 and 1998. (Sweeney, 1999:228) Between 1993 and 1997, the Irish economy expanded by approximately 40 percent. In 1997, the Irish economy grew by 9.5 percent, making it the fastest growth rate in the OECD area for the third time running. (Economy

of Ireland, 1998:1) In the year 2000, GDP growth peaked at 11.5 percent. (Clark and Woodward, 2002:1)

By the end of the 1990s, Ireland was ranked fifth highest in the OECD area in terms of GDP per head and fifth highest in the world in terms of competitiveness. (Smith, 2002:126) In 1997, Ireland ranked fifth in the world as a destination for US direct investment inflows. (Kirby, 2001:73) Ireland's GDP per capita stood at \$25,500, higher than both the United Kingdom at \$22,300 and Germany at \$23,500. In 1987, Ireland's GDP per capita was only 63 percent of the UK's. (Powell, 2003:431) Growth rates between two and three percent, are generally accepted by economists as being as good as it gets. (Sweeney, 1999:228) However, from 1990 through to 1995, Ireland's GDP increased at an average rate of 5.14 percent per year, and from 1996 through to 2000, GDP increased at an average rate of 9.66 percent. (Powell, 2003:431) Other small European economies have struggled to grow much more than this in the whole of the 1990s. (Smith, 2002:128)

Ireland's employment figures have also increased dramatically with the growth of the Irish economy. Economic development eventually created substantial new employment. The 'jobless growth' of the 1980s has been replaced by the highest rate of employment growth. (O'Riain, 2000:2) The rate of increase in employment figures has been the most singular success of the Celtic Tiger economy. In just over a decade, more jobs have been created than in any comparable period in the country's history. (Mac Sharry and White, 2000:373) Whereas immigration had long been an unemployment safety valve, in recent years Ireland has had net immigration. (Byrne, 2002:1)

Between 1990-1993, the total number of people at work increased by 18,000, and between 1993 and 1996, the total number of people at work increased by 145 000. It increased by a further 41,000 in 1997. (Murphy, 1998:5) A total of 513,000 extra jobs have been created in the period, a growth rate of 47 percent. (Sweeney, 1999:228) By 1996, there were 21 percent more jobs in the economy than in 1987. (Barry and Hannan, 1998:1) The unemployment rate has fallen by nearly 9 percentage points. (Mac Sharry and White, 2000:360)

9. The Role of Government and Agency in Industrial Policy.

9.1 Government participation.

The trigger to Ireland's great fortune in the last decade, was a drastic change in economic policy. The 1980s gloom bore the seeds of the boom in the 1990s, as it opened up space alongside the FDI agenda for alternative industrial development strategies. (O'Riain and O'Connell, 2000:322)

Since the Second World War, governments have been accountable for 'managing' their economies. Governments have put themselves in this demanding position, by competing for votes through promises to the electorate. In the 1990s, it has been a policy of the Irish government and government ministers to continually promise the creation of more jobs. Governments rely on business for economic activity to tax, as well as for job creation. Without these factors, they have neither the funds to carry out their jobs' programme nor

an economic performance that is likely to get them reelected. Thus, maintaining an adequate level of investment, is a prerequisite for a government to meet any other goals it might have. (Thomas, 2000:25) The government, having to fulfill its promises, took the view that the best way to create jobs and improve the economic performance of its country, was to attract foreign direct investment. (Fanning and Murphy, 2002:65)

The turning point came in 1987, when Charles Haughey became Taoiseach, and Fianna Fail proceeded as a minority government, but with the support of the opposition; Fine Gael. The new government combined tough fiscal policy measures with some innovative tax changes and investment incentives. These policy measures laid the foundation for economic improvement. (Mac Sharry and White, 2000:211) The government decided to cut back dramatically on public spending under the Fiscal Stabilization Programme in order to restore the public finances. The programme was aided by the fact that it was implemented through expenditure cuts rather than tax increases and thus did not impact negatively upon competitiveness, private investment and profitability. (Cassidy, 2002:21) The programme had dramatic effects, and between 1987 and 1989, total spending fell by over 10 percentage points. (Cassidy, 2002:21)

Sound policy provided the groundwork for economic growth in Ireland. The government then focused on its industrial policy that would concentrate on FDI. Successive governments, since 1987, followed a consistent macroeconomic policy and gave high priority to investments in education, infrastructure and human resources. (Kirby, 2001:72) In the age of globalization, it is easy to neglect the importance of the state and

its institutions. The decisions to invest in education and to encourage multinational investment were policy decisions. These included the government's decision to join the Euro zone, to accept structural funds, reduce taxes and to invest in education. (Sweeney, 1999:237) These policy decisions by the government were to prove important in shaping the future form of economic development in Ireland. (Mac Sharry and White, 2000:363)

The autonomy of the Irish government in economic-policy making is very apparent in Ireland. The policy decisions to promote foreign investment, was a decision between government, all political parties, the Industrial Development Authority and even the workers themselves. (Mac Sharry and White, 2000:376) The Celtic Tiger phenomenon was built on a consensus established between the social partners. The partnership was based on clearly defined economic and social objectives laid out in the 'Government's Industrial Development Strategy'. The discipline imposed by this consensus was sustained for more than a decade, with great success. (Mac Sharry and White, 2000:376) The degree of political cohesion on this issue and the series of Partnership Agreements that were created, raised business confidence and made Ireland a more attractive location for foreign investment. (Mac Sharry and White, 2000:367).

Sweeney, an economist with Ireland's largest trade union SIPTU, believes that policy has been extremely influential in generating the Irish economic success in the 1990s. He argues that most of the key drivers in delivering the success are the result of domestic action by the government, institutions or the Irish people. (Sweeney, 1999:210) The economic 'miracle' of Ireland, was not essentially a 'miracle', it was the culmination of

economic, social and political forces, which came together in a 'benign conjuncture' in which the economic boom took off. (Sweeney, 1999:229) After years of economic stagnation, Ireland finally entered a 'virtuous circle', where each factor in the success reinforced other factors to generate rapid, positive economic improvements. (Sweeney, 1999:229)

9.2 The IDA.

As mentioned earlier, a Flexible Developmental State is built around a 'loosely coupled' organizational model. The state performs everyday micro-intervention in the economy through a state agency. (O'Hearn, 2000:10) In the case of Ireland, The Industrial Development Authority (IDA) is the state agency that deals primarily with foreign direct investment. Together, the government and the IDA developed an industrial development strategy that would turn the Irish economy around.

9.2.1. IDA History.

The Industrial Development Authority (IDA) was set up in 1949, to advise the Minister on industrial development, to provide incentives for the growth of new Irish businesses and support indigenous industry. (O'Riain and O'Connell, 2000:316)

After the decision by government to change its industrial policy from one of protectionism to free trade in 1958, the role of the IDA changed. The IDA was then set up to spearhead Ireland's economic development. (Burns, 2001:14) The government's plan of economic development relied heavily on an export-orientated industrial base. The

task of encouraging the development of export-orientated manufacturing was undertaken by a number of state-sponsored bodies, especially by the IDA. (O' Sullivan, 2000:261) In the late 1960s the IDA had become the central agency in formulating and implementing industrial policy. (Economy of Ireland, 1998:14)

In 1969, the new Industrial Development Act was passed, which gave the IDA a powerful statutory mandate to act under the Minister as "a body having national responsibility for the furtherance of industrial development." (Mac Sharry and White, 2000:191) In addition to promoting foreign investment, the IDA now had the responsibility for "modernizing and developing indigenous industry, and the right to finance company research and development." (Mac Sharry and White, 2000:196) Throughout the 1970s and 1980s the focus on attracting FDI was consolidated with the institutionalization of the IDA's role as the leading strategic force in industrial policy. (O'Riain and O'Connell, 2000:317)

In 1991 the government then decided to split the IDA into three parts, to make three separate agencies that would tackle industrial development. Firstly, *Forfás* was created to provide overall policy coordination. Secondly, *Enterprise Ireland* was created to help develop Irish based enterprise with the potential to trade internationally. Lastly, the Industrial Development Agency (IDA Ireland) was created to attract overseas companies and help develop their operations in Ireland. (Economy of Ireland, 1998:3) In 1994, the 'A' of IDA was changed to 'Agency' from the original "Authority". (Mac Sharry and White, 2000:224) With its specific role relating to just foreign investment, the IDA

embarked on a foreign-investment policy that was “high tech, high-productivity and high-skill.” (Mac Sharry and White, 2000:212)

9.2.2. The Role of the IDA.

The IDA is a national investment promotion organization, which has been extremely successful in promoting foreign investment to the benefit of the Irish economy. (Mac Sharry and White, 2000:309) It is an autonomous state sponsored agency funded through a government grant under the National Development Plan and operates under the terms of the Industrial Development Acts 1986-1998. (IDA Annual Report, 2002:1) The IDA receives its funding from, and must report to the Department of Enterprise, Trade and Employment and the cabinet minister in that department. The IDA is outside the civil service structure, and therefore has the flexibility and freedom of maneuvering that is unusual for state agencies. (O’Riain, 2000:15)

The IDA operates under corporate governance principles and follows the guidelines set out in the “Code of Practice for the Governance of State Bodies” as issued by the Department of Finance, both in its own activities and in its use of committees. (IDA Annual Report, 2001:17) The IDA, is a key institution for the Irish government and has played an major role in steering economic growth and leveraging foreign investments. (Coe, 1999:37) The IDA, who acts as the middleman and facilitator in helping to secure governments plans, carries out the government industrial development plan. (Mac Sharry and White, 2000:234)

The IDA's Mission Statement reads as follows.

“We will win for Ireland, its people and its regions, the best international innovation and investment so as to contribute to the continued transformation of Ireland to a world-leading society which is rich in creativity, learning and personal and social well-being. We will work in partnerships with other organizations to enhance the best of Irish capabilities and talents and match them to the best of global investment.”

(IDA Annual Report, 2001:1)

Over time, the IDA has pioneered and perfected industrial development strategy to win FDI for Ireland. Today, the agency still uses much the same strategy and has become a role model to other developing countries seeking to emulate Irish success. (Mac Sharry and White, 2000:196) The IDA employed “can do” people who did their homework and figured out the smart way to exploit Ireland's strengths. (Byrne, 2002:2) The agency responds to the needs and desires of TNCs and does whatever it can do to keep them in Ireland. (O'Hearn, 2000:12)

The IDA's approach at targeting sectors of industry dates back to Ray McLoughlin's 'closed loop' model, which was created in 1970. McLoughlin's model still continues to this day. As an industrial-development strategy, it firstly identifies the sectors and sub-sectors that are growing and would provide a good fit for Ireland. (Mac Sharry and White, 2000:272) In selecting these industries, the IDA uses a policy of 'picking winners'. (Mac Sharry and White, 2000:272) White, managing director IDA Ireland

1981-90, explains the IDA's policy as "searching out the emerging growth niches and then tracking down the emerging star companies." (Kirby, 2001:72)

Firstly, the IDA directs their interests to those product and industry areas, which offer the best prospects of high economic benefit in relation to the initial economic cost. Mac Sharry and White explain the process using four elements: "A). Pick companies that meet basic economic and social criteria, such as not too capital intensive, high male labour content, and high use of raw materials and services. B). Pick companies that offer commercial stability and therefore economic stability. C). Pick those companies that depend highly on scarce human resources, such as skilled people, as it implies a greater commitment and tie. D). Pick those companies who can take advantage of natural resources and therefore enable us to conserve other resources." (Mac Sharry and White, 2000:235)

Secondly, the IDA then finds the best companies in the different sectors, such as Intel and Microsoft in IT. The IDA's logic was to target individual companies with "rifle shot" precision rather than the "scatter gun" approach in seeking foreign investment. These companies had to meet certain criteria. First, their likely investment requirements were assessed, and then their outcome was measured against Ireland's ability to meet the development needs of those companies. (Mac Sharry and White, 2000:231-232) This 'closed loop' model has proved highly successful to date. (Mac Sharry and White, 2000:368) The IDA regularly adjusts its targeting of sectors and companies, while fine-

tuning the range of financial incentives on offer to attract inward investment. (Mac Sharry and White, 2000:368)

Thirdly, the IDA needs to finally persuade its target companies to invest in Ireland. This process includes a lot of negotiations, where the IDA tries to convince the investors that Ireland has the human skills and support facilities to meet their operating requirements. (Mac Sharry and White, 2000:272) In White's words, "This was a proactive, not a reactive approach to industrial development." (Mac Sharry and White, 2000:231-232) The IDA did not agree with other investment agencies techniques, such as passively waiting for investment applications, or else relying mainly on seminars, conferences or public relations to generate a response. (Mac Sharry and White, 2000:232)

The IDA would then put its plans into action. It bought property and built advance factories and industrial parks in different towns across Ireland. (Mac Sharry and White, 2000:302)

The IDA has developed close ties with many TNCs abroad and in Ireland. These ties are formed through the IDA's international offices. There are four European offices, six US, and five Asia-Pacific offices around the world. Each office establishes a relationship with companies in their area, and then ultimately hands the companies to their counterparts in Ireland, who then play the role of attracting investors. (O'Riain, 2000:14)

The IDA takes great care to ensure that it meets the needs of every new company locating in Ireland, either by doing so itself or by mediating to resolve any problems that arise.

According to White the latter role included “interceding with government departments or local authorities where necessary.” (Mac Sharry and White, 2000:198)

The IDA also plays a critical role in providing the needs of firms once they are in Ireland. O’Riain calls this providing a “one stop shop of sorts”. The IDA makes sure it had close ties to local managers of their TNCs, and continually keeps putting pressure on the TNC subsidiaries to continue to upgrade in their operations and also to continue their investment. (O’Riain, 2000:14) Such a hands-on company friendly approach yielded rich investment dividends. Multinationals, which could have easily diversified elsewhere in Europe, instead expanded their production in Ireland. (Sweeney, 1999:198)

Therefore, once the Multinational decides to invest in Ireland and set up its plant, the IDA continues its ‘after-sales service’ to each company. Industry Minister, Albert Reynolds, used to tell prospective investor audiences “Ireland believes that a satisfied customer is the country’s best salesman.” (Mac Sharry and White, 2000:198) There is a global battle for foreign direct investment in our globalized world and White argues, “the IDA was determined to succeed no matter what difficulties they met.” (Mac Sharry and White, 2000:198)

The IDA has exemplified a ‘can do’ culture and a degree of patriotism. White says that these qualities were allied to a strong competitive instinct, “never conceding defeat in a winning project.” (Mac Sharry and White, 2000:312) White states that foreign companies themselves have testified consistently and publicly on the positive influence on their

decisions to locate in Ireland because of the commitment and efficiency of the IDA staff. (Mac Sharry and White, 2000:312)

10. Ireland's Industrial Foreign Investment Strategy.

Ireland's rapid growth is an example of how a country can exploit the global market. As mentioned before, globalization does affect small states if they do not adapt to the global economy. A state can be "lost" in this competitive world, therefore the state needs to adapt to the changing market to achieve an effective and active state. (O'Riain and O'Connell, 2000:311) The Irish government did just that. With the help of the IDA, the government embarked on an industrial development programme that would target FDI as a means to integrate Ireland into the global economy. (Sweeney, 1998:135)

Instead of state intervention and regulation of capital, the Irish state began to encourage market friendly policies such as deregulation, free trade, and openness to foreign capital. (O'Hearn, 2000:1) following the principles of the 'closed loop' model, the IDA and the government seized the opportunity to embark on a mission to win a large share of foreign investment, concentrating on certain industry areas and marketing itself as the type of country in which growing MNCs would wish to invest. (Sweeney, 1998:135)

10.1 Targeting and Agglomeration.

Although the "closed loop" model of targeting FDI has been in existence since the 1970s, it wasn't until the late 1980s that all its principles came into direct use. After the

recession in the early 1980s, the IDA and the Government desperately searched for a way to attract investment into its country. The global restructuring programme of the 1980s first had a negative effect on Ireland, and many MNCs left the country. However, a new wave of foreign investors then emerged in the late 1980s. These new investors were searching for countries where they could agglomerate their production facilities close to one another. This agglomeration would in turn reduce transaction costs and would provide networks with other firms that could respond more quickly and flexibly to rapidly changing markets. (O'Hearn, 1998:70)

The agglomeration of production facilities in certain areas is called 'clustering'. Michael Porter defines clusters as "geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (for example, universities and trade unions) in particular fields that compete but also cooperate." (Porter, 1998:197)

The first step of Ireland's new industrial policy would be to "pick winner industries" that would offer the best prospects of high economic benefit. (Mac Sharry and White, 2000:235) It is argued by many economists that Industrial policy rests on a view of international competition in which some industries offer greater wealth-creating prospects than others. (Porter, 1998:248) Desirable, growing industries should be targeted and governments should identify industries that are favourable to its country's conditions. (Porter, 1990:678) Therefore the IDA and the Irish Government decided to target the

world's leading industries, such as electronics; pharmaceuticals, software and chemicals, and more recently included financial services. (Sweeney, 1999:111)

Brendan Halpin, the international marketing manager of the IDA, outlines the areas of specialization that Ireland has sought: "Over the past decade we have concentrated on four sectors. One is the IT or ICT industry- the information and communication technologies. The second major area is the pharmaceutical and health-care industry. The third area, which we only established in 1988, was the international financial services industry, and the more recent drive we have had is the creation of jobs in what we call the international service industry- that is software, customer services and support, and shared service activities." (O'Rourke, 2001:2) The IDA "picked winners" –not individual firms, but expanding industrial sectors. Investments have been in the fastest-growing industries, which have contributed greatly to the Irish success story. (Sweeney, 1999:111)

Firstly, the government acted to define the types of involvement in the international economy that would be supported. It defined the character of Irish industry and the sectors that the IDA would pursue, namely software and pharmaceuticals. (O'Riain and O'Connell, 2000:321) The state's second contribution was to 'making winners', in other words to develop certain sectors. Grant giving became very selective and the state required that efforts at company development must take place. State agencies, such as the IDA, began to promote development programmes through State grants, which developed areas such as marketing, management development, training and R&D. (O'Riain and O'Connell, 2000:321)

10.1.1 Computer Industry- IT and Software.

The computer industry drove the change in the foreign share of mixed capital. Since 1973, Ireland had tried to target U.S. minicomputer companies, but they could never sustain high growth. They disinvested heavily in the 1980s as the global computer industry restructured in the 1980s. Many of the companies that had invested in Ireland, got up and relocated elsewhere. (O' Hearn, 2000:6)

However, this global restructuring led to further opportunities. Foreign investors decided to "agglomerate their production facilities close to one another to reduce transaction costs and establish networks with other firms that could respond more quickly and flexibly to rapidly changing markets." (O' Hearn, 2000:6) This new global restructuring later paid off for Ireland, as they were chosen as one of the few locations of agglomerated foreign IT investments. (O' Hearn, 2000:6)

The IT industry is generally regarded as being a highly globalized sector. High levels of international investment in production, international sourcing of parts, intra-firm trade and international collaboration agreements characterize the sector. (Coe, 1999:40)

Internationalization processes conducted through forms of FDI such as mergers, acquisitions and the establishment of subsidiaries predominantly characterize the computer and software industry. This is due to the interactive nature of computer software and service provision, which means that transnational companies have sought to

increase their market share by establishing a direct presence in each national market.

(Coe, 1999:40)

The vision of making Ireland a world-class centre for the electronics and technology industry evolved within the IDA in the mid-1970s. The IDA convinced the government that electronics was the way forward, and the IDA, government and education authorities began to seek ways to adjust graduate output to fit the rapid changes of the electronics and technology industry. (Mac Sharry and White, 2000:284) The IDA's aim was to attract companies from abroad to establish a base in Ireland from which to sell their services either globally or as a substitute for services that were then imported. The expected benefits were good quality jobs and a positive contribution to the balance of payments from export earnings. (Mac Sharry and White, 2000:292)

In the mid-1980s the IDA decided to target the software industry when it selected the computer software products as one of the most important of nine service sectors that showed strong potential for attracting FDI. (Coe, 1999:45) In 1982, the IDA won IBM's interest in the new international service opportunities in Ireland, and in 1983, this company agreed to establish a software-development center with a hundred people in Dublin to do specialist work for IBM itself. The success center influenced IBM's decision in 1996 to locate its 3000-job campus project in Ireland, fourteen years later. (Mac Sharry and White, 2000:295)

Intel became the first of Ireland's IT investments. In 1991, Intel located its European site for the production of computer chips near Dublin. The cost to the Irish state of attracting Intel was enormous. The cost amounted to more than 100,000 punts per job, compared to an average cost of 12,000 punts per job to attract other firms. (O'Hearn, 2000:6)

However, no other overseas investment has exceeded the benefits and return to Ireland generated from the Intel project. (Mac Sharry and White, 2000:220) Within the next few years nearly every major player in information technology followed Intel to Ireland. In integrated circuits; Fujitsu and Xilinx set up in Ireland, in PCs; Gateway, Dell, AST, Apple, Hewlett-Packard and Siemens-Nixdorff made their way to the emerald isle. In disk drives; Seagate and Quantum, in software; Microsoft, Lotus, and Oracle, and finally in telemarketing and technical advice; Dell, Gateway, IBM and Digital established themselves in Ireland. (O'Hearn, 2000:6) Beside these leading firms, other smaller firms established themselves, involving themselves in the production of boards, power supplies, cables, connectors, data storage, printers and networking. By 1998, Ireland was the world's second largest exporter of software behind the United States. (O'Hearn, 2000:6)

Intel was important to Ireland, and was a "winner catch" by the IDA, as it started a domino effect where scores of companies agglomerated around Intel to capture the advantages of proximity in this age of 'flexible specialization'. (O'Hearn, 1998:156)

Since Intel, Ireland has attracted 40 percent of US electronic investments in Europe and 20 percent of total industrial FDI into the EU. The investments in Ireland have resulted in

a growth of the Irish GDP by 4.7 percent annually throughout the early 1990s, and 7-8 percent since 1995. (O' Hearn, 2000:6)

By 2000, technology giants such as Microsoft, Intel and Gateway were calling Ireland the "Silicon Isle" and their "European home". (Gray, 2002:41) Ireland's FDI inflows from high-tech investments rose from an average of close to \$3 billion per year throughout the mid-1990s to \$20.5 billion in 2000. (Gray, 2002:41)

Small, more developed countries, such as Ireland cannot offer the same kind of large, low-wage workforce that is found in India, and hence the type of software development that some countries try to attract is different to that which dominates India. Ireland offers other incentives, such as low taxes and available skills that are attractive for higher-level software development work. (Coe, 1999:43) Manufacturing and software 'localisation' for the European Markets are the two key tasks undertaken in Ireland. (Coe, 1999:46). 'Localisation' is when branches of software giants such as Microsoft take popular programs-spreadsheets, games and word processors, and adapt them for different cultures and languages. This little known business has grown to make Ireland the world's top software exporter. (Ford, 2001:1)

O'Riain argues that agencies, such as the IDA have "become educators and guides of the industry. They have linked grants with product exporting, research and development programmes, and management development, so that it would help define the nature of the software industry in Ireland and provide constant pressure on firms to upgrade their

capabilities.” (O’Riain, 2000:7) The goal of state action was to shape the character and development path of the industry, and the government and the IDA managed to do this successfully. (O’Riain, 2000:7)

10.1.2. Health-Care Industry.

The Health-care sector is divided up into two sectors. The pharmaceutical wing makes drugs and medicines, while the medical device wing makes products such as catheters, syringes and dosage-measurement devices. There are over 150 foreign companies in the overall healthcare industry in Ireland, employing more than 25 000 people directly and responsible for some 20 percent of Irish exports. (Mac Sharry and White, 2000:275)

The pharmaceutical sector has done very well in Ireland. Ireland has positioned itself well in securing major investments in this area. (IDA Annual Report, 2001:10) The development of the pharmaceutical industry in Ireland dates back to 1960, when a Danish company called Leo Laboratories decided to establish in Dublin. (Mac Sharry and White, 2000:275)

The IDA decided that the pharmaceutical sector would be one of its major focus areas for its direct-marketing approach to companies. The attractions were clear to the IDA, pharmaceuticals required large capital investment, which in turn ensured that a company that was locating in Ireland was more likely to have a long-term commitment. (Mac Sharry and White, 2000:276) The IDA used the presence of other multinational drug companies as an advertisement to help win others. (Mac Sharry and White, 2000:276)

Antoin Potie, general manager of the Servier plant, stresses that the attitudes of Irish employees are a key ingredient: "We can say that the quality policy, the quality culture of this country, of the Irish people, is good for pharmaceutical companies." (O'Rourke, 2001:10)

The other segment of the healthcare sector is the medical-devices wing. Its development is linked to the continuing world need for medical treatment. Exports in this sector exceed one billion pounds a year and the industry has put down deep roots in Ireland's economy. According to Mac Sharry and White, over one-third of all the materialist needs are sourced domestically in Ireland, and some 40 percent of companies are carrying out product development within Ireland. (Mac Sharry and White, 2000:280) The majority of world leaders in the medical-devices wing are now situated in Ireland. The companies make high margin products that can be delivered within twenty-four hours to most markets in Europe. The industry is expected to continue expanding in terms of investment, exports and jobs. (Mac Sharry and White, 2000:281)

Ireland is now undergoing a change with biotechnology processes becoming the engine of growth and change. It is estimated that the potential market in biotechnology alone will grow in value to over 250 billion Euros by 2005 and sustain over 3 million jobs globally. (IDA Annual Report, 2001:3) Ireland is now investing heavily in educating and equipping graduates with high level skills, in order to successfully compete for the best world class industries in the biotechnology sector. (IDA Annual Report, 2001:3) Site

location and infrastructure are also critical aspects of winning over the biotechnology investments. (IDA Annual Report, 2001:10)

10.1.3. International Financial Services.

Over the years Ireland has developed into a world-class center for international financial services. The Government hopes that Ireland will become the 'e-commerce capital' of Europe. In 1987, the government established the International Financial Services Centre (IFSC) in Dublin. This was launched in response to the rapid growth of the financial services industry worldwide. (IDA Ireland, 2003:1) The IDA immediately set out to target the top 100 global technology companies. (Economist, 2000:16) By 2001, some 400 financial service companies have moved into the financial center, making Dublin a big player in the world market sector. It is now host to more than half the world's largest banking firms. The majority of the companies are from the US, but increasingly there is also a European presence. (O'Rourke, 2001:10)

The IDA argue that the "success of the International Services Sector is also a result of the flexible and prompt response of the government authorities working in partnership with the industry." (IDA Ireland, 2003) The pro-business attitude of the regulatory authorities in Ireland is an important feature of the financial sector. The IDA argue that evidence of the government's commitment is in the "efficiency in which regulatory and taxation legislation has been amended and introduced in a matter of years, in order to improve Ireland's attractiveness to global players." (IDA Ireland, 2003:1)

Tax has played a major role in attracting Financial Services to Dublin. Carmel Smith, the Industrial Development Authority's marketing manager, explains how Dublin, on the periphery of Europe, has been able to turn itself into one of the headquarters for international financial services. (O'Rourke, 2001:10) Smith believes that companies were initially drawn to Dublin, because it was, "the most attractive area from a tax point of view." (O'Rourke, 2001:10) Ireland had to apply to the EU under the competition rules to put in a special tax regime for the companies that were to invest in Ireland. The tax regime for manufacturing was already in place, at a 10 percent corporation tax rate for international companies. (O'Rourke, 2001:10)

Carmel Smith says that most of the international financial service companies will say they like Dublin because, "It's a good location to do business. It's a very pro-business location. The people they recruit here are of the highest caliber and there is a very good work ethic among Irish people." (O'Rourke, 2001:10)

10.1.4. Winning Industries.

The nature of industry keeps changing. Textiles and mechanical engineering used to be the 'niche' market, but after their decline there was growth in other industries, such as software and e-commerce. The IDA has successfully picked winning industries, and has attracted the best companies within those industries. However, picking certain industries is very important, as the global economy can change and certain industries can go bankrupt over-night. Sweeney argues that although the external environment is very important for a small open economy, in the Irish case however, the level of overall

growth in foreign markets was less important than other factors in generating the Irish boom. Even when recession hit the rest of the world, there was still adequate demand in other economies for Irish goods and especially high for the type of products exported from Ireland. Sweeney argues, "In short, Ireland's leading export goods and services were recession-proof." (Sweeney, 1999:84) After 1993, the UK and US economies picked up, and most of the other EU states began to expand again, helping further with other Irish exports. (Sweeney, 1999:84)

The IDA is aware that the same thing can happen, and that a fair share of Ireland's top industries will also decline and decay in a number of years. Thus, the IDA needs to be continually searching for the emerging star sectors that are competitive in an Ireland of rising costs compared with others in an enlarged European Union. (Mac Sharry and White, 2000:313)

The IDA followed the first few stages of the 'closed loop' model with precision, picking industry areas that were at the top of the global market. According to Halligan, "the IDA has followed the cluster theory very, very successfully and intelligently." (O'Rourke, 2001:1) By attracting one or two multinationals in one field it then attracts others in that specific field. (Porter, 1998:252) The already high number of computer, chemical and pharmaceutical companies located in "clusters" in Ireland, helped to attract even more FDI into the country. (Sweeney, 1998:112)

As companies sought to consolidate their operations, the range of business functions attracted to Ireland was extended, whether for warehousing, customer orders and support services, currency and treasury management or reservation centers. (Mac Sharry and White, 2000:179) Rivalry between several multinationals began to stimulate growth in supporting and related industries. (Porter, 1990:679) Growing clusters also attract people and ideas that reinforce a cluster. They attract skilled people through offering better opportunities." (Porter, 1998:242)

The success of some of the established high tech MNCs has attracted their competitors to establish in Ireland. Ireland became one of the few European countries where there were locations of agglomerated foreign investment. (O'Hearn, 1998:70) Twelve of *Fortune's* top twenty electronic companies and all of its top ten pharmaceutical companies have plants in Ireland. (Murphy, 1998:5) Ireland's economy became very dependent on MNCs in the 1990s. The foreign share of fixed capital investment in industry rose from about 60 percent in 1988 to 80-85 percent in the late 1990s. (O'Hearn, 2000:5) The numbers of foreign firms grew from 670 in 1987 to 1,141 in 1998. (Sweeney, 1999:140) Foreign chemicals, computers, and electrical engineering directly accounted for more than 40 percent of Irish economic growth in the 1990s. (O'Hearn, 2000:7) In 1995, Ireland replaced the UK as the favourite site for US electronic hardware overseas investment, securing 30 percent of the new projects in the EU, while the UK lagged at 19 percent. For overall US investment, Ireland receives 37 percent of all US investment in the EU. (Sweeney, 1999:91)

10.2. Incentives.

Ireland's Industrial Policy at targeting sectors proved successful. However, once the IDA had decided on its target sectors and companies, it then needed to convince them to invest in Ireland, instead of an alternative European location. The European Union is one of the most dynamic and leading economic zones in the world, and states need to be competitive if they wish to attract investment. (Kuhnhardt, 1996:156) According to Porter, "A nation's competitiveness in the world depends on the capacity of its industry to innovate and upgrade." (Porter, 1998:155) Although many companies were 'pulled' by the existing "blue chip" companies already located in Ireland, other factors and incentives did play a major role. (Sweeney, 1998:136) The IDA and the government had to fine-tune the range of incentives they had to offer in meeting the investors' requirements. The range of incentives and advantages that Ireland could offer would first include a step towards developing a model that would identify the country's true competitive advantages. (Porter, 1998:381) Porter argues that governments are the principle engines behind the factors that attract most MNCs to their respective countries. The government bears the responsibility to decide policies on important areas such as tax, education and infrastructure. (Porter, 1990:267) The Irish state would have to undertake a process of economic decentralization and flexibility. (O'Hearn, 2000:1)

There are a number of significant factors that attracted foreign investors to Ireland. Firstly, there are the internal factors. This would include low-profits tax rates, restrained wages under national agreements, a well educated and skilled, young workforce, and

improved infrastructure. All of which were aimed at creating an attractive macroeconomic environment for investors. (O’Hearn, 2000:13) External factors include: Ireland’s membership of the European Union and the Single Market and the European Structural and Cohesion Funds.

10.2.1. Internal factors.

10.2.1.1. Corporate tax rates.

Ireland’s ability to attract foreign direct investment is often seen to depend upon her low taxation regime. Tax relates to arguments associated with the globalization thesis. Colin Hay and Ben Rosamond, sum up this argument by writing:

“In a globalized context characterized by the heightened...mobility of capital, vicious competition between states will serve to drive down the level of corporate taxation...Accordingly, any failure on the part of a state to render...its corporate taxation levels competitive in comparative terms...will result in a punitive depreciation in net revenue as capital exercises its mobility to exit.”

(Smith, 2002:127)

The Irish state believes that ‘if low taxes are the source of growth, then lower taxes should bring yet more growth.’ This is in some ways an ‘insurance policy’ for the government against future stagnation of the kind that Ireland had experienced throughout her history. (O’Hearn, 1998:165) In the 1950s, the tax system was overhauled to make Ireland attractive to foreign investment. A 50 percent tax remission was granted on export sales, which later increased to 10 percent remission. (Byrne, 2002:1) In 1981,

Ireland then offered a 10 percent tax remission. Until 2003 Ireland has continued its offer of a 10% corporate tax rate on manufacturing and export services, compared to the European standard of 30-40 percent. (Smith, 2002:127) White, a key player in the growth of the IDA since 1970, calls the 10 percent tax regime, “the unique and essential foundation of Ireland’s foreign investment boom.” (Kirby, 2001:72)

The IDA believes that ‘low tax’ is a critical advantage in winning new investment. Since the 1970s the IDA have presented the tax incentive under one simple message, “No Tax” or “double your after-tax profits.”(Mac Sharry and White, 2000:246) These kind of slogans sent strong signals to the international business community. It clearly showed that the country was pro-enterprise, as it rewarded rather than penalized profits, and that Ireland favoured a long-term approach to investment. (Mac Sharry and White, 2000:247)

The IDA has put pressure on successive Irish governments to modify, but retain a powerful and distinct low-tax regime as part of its foreign investment package. (Mac Sharry and White, 2000:312) In 1981, Ireland introduced a new 10 percent tax applying to all manufacturing industry. The IDA had to work out a way to sell this to investors. Its campaign included a remarkable promise, “Maximum 10 percent tax guaranteed to the year 2000.”(Mac Sharry and White, 2000:250) According to Michael Porter, “the single most powerful tool for raising the rate of sustained investment in industry is a tax incentive for the long-term.” (Porter, 1998:189) The IDA believes that Ireland should offer the investor the longest possible time horizon on the predictability of taxes, as this makes the investor confident to forecast a tax-rate liability some ten to twenty years

ahead. The investor can also estimate the net return on his Irish investment. Ultimately, the investor can plan on reinvestment and expansion with greater assurance. (Mac Sharry and White, 2000:250) No other country has been able to match Ireland's long-term commitment to tax; therefore Ireland retains a unique advantage. (Mac Sharry and White, 2000:251)

Ray Mac Sharry, former finance minister (1981-1990) and Padraic White believe that there has been no "financial weapon" more important than tax in convincing new industry to locate in Ireland. (Mac Sharry and White, 2000:246) The tax advantage helped overcome so many of Ireland's disadvantages of size and location, in respect of its distance from capital markets, and the small size of the domestic market for a company's products. (Mac Sharry and White, 2000:255)

James Hines of the University of Michigan has found that "taxation significantly influences the location of foreign direct investment." (Economist, 2000:17) There has been a significant drop in corporate tax rates around the world, which suggests that governments are trying harder to cater for international firms and investor's appetites for lower taxes. (Economist, 2000:17) Many foreign businesses in Ireland admit that what brought them to Ireland was a combination of low corporate taxes and access to the EU's vast market. Martin Kenney, chief executive officer of Interclaim Recovery Ltd., says "That tax rate certainly played a major role in moving me here." (Maclean, 2000:48)

Moran, after summing up his reviews on studies of incentives on international location decisions argues, "Grants, tax holidays and reduced tax rates do, in short, play a role in multinational corporate choice among locations for investment." (Thomas, 2000:24) Caves' review on literature comes to the same conclusion on MNCs and identifies "numerous recent time-series studies that have confirmed the findings that taxes strongly affect the location of foreign investment." (Thomas, 2000:24) Thomas concludes that the consensus, then, is that "incentives do matter to the location of investment, therefore, individual governments are not simply irrational to use them." (Thomas, 2000:24)

The Tax Debate:

One of the most heated debates about globalization is whether competition between countries forces them to cut taxation in order to attract foreign investors. (Gray, 2002:42) In the era of globalization, the need to keep taxes low is seen as particularly pressing in the light of increased competition from all corners of the globe. Ireland has to compete with countries such as Singapore, which offers highly attractive packages, including very low or even zero percent tax rates. (Smith, 2002:127)

There have been efforts to crack down on 'harmful tax competition'. (Economist, 2000:16) Some members of the European Union regard 'low corporation tax' as tax dumping. (Murphy, 1998:29) The EU has been campaigning for years against certain countries low taxes. The main target of this campaign was initially Ireland, which has long annoyed its European partners by its 10 percent tax rate on profits. (Economist, 2000:16) Certain member countries in the EU, such as France and Germany, have the

strong opinion that other EU members should not be allowed any longer to do 'unneighborly' things, such as being a tax haven for overseas companies in the 'heart of the single market.' The concept of a 'tax haven', which bids down company taxes within Europe, is against the principle of the Single Market. (Sweeney, 1999:219)

Ireland has been able to suppress complaints by stopping its preferential treatment to multinationals and foreign firms by offering the same 12.5 percent tax rate on profits to Irish as well as foreign firms by 2010. (Economist, 2000:16) This includes lowering non-manufacturing taxes from 32 percent to 12.5 percent. (Thomas, 2000:95) This strategy is necessary to remove the accusations that the Irish are guilty of tax discrimination by other EU members. The Government's decision to create a 'uniform corporation tax structure' is the most effective way to rebut these accusations. (Murphy, 1998:31)

In the future, the European court may even cause corporate tax rates within the EU to be harmonized. France and Germany have always advocated this dream, whereas for lower-taxing Ireland and other countries such as Britain, this would be a nightmare. It has been estimated that if Ireland had harmonized its corporate tax rates to that of the EU average over the period 1990-1997, Ireland would have experienced a fall of more than 1.3 percent of GDP per annum in its net FDI flows, and a fall of about 0.8 percent of GDP in revenue from this tax. (Clinch, Convery and Walsh, 2002:39)

The European Court sees its mandate in fulfilling the completion of a single market in Europe, which includes the idea of a harmonized corporate taxation. Many member states

think they have a veto over EU tax policy, but if the European Court makes a decision, the member states have to accept it. (Economist, 2000:19) However, Tax policy does require unanimity in the Council of Ministers, therefore agreement may be difficult to achieve. (Thomas, 2000:266)

Sweeney believes that Ireland should raise the rate of corporation tax to 18 or 20 percent, and have a minimum tax rate of 12.5 percent. Sweeney argues, "this would send positive signals to our European partners." (Sweeney, 1999:220) The low corporation tax has served Ireland well in attracting investment, but other less artificial attractions should be developed in case of a harmonization of corporation tax in the EU. (Sweeney, 1999:220)

10.2.1.2. Quantity and Quality of Human Capital.

Two long-term factors that are significant to economic growth and attracting FDI are: the number of human capital and the quality of human capital within a given country. Ireland is no exception. Many MNCs are attracted to Ireland because it has such a large labour force, and the quality of the workforce is educated, skilled and English speaking. The Irish government has invested heavily in educating the masses and changes in education policy was of great importance to economic prosperity. (Sweeney, 1999:116) In a survey of businesses, it was found that when asked the reasons of their choice of country for investment, Ireland was placed top in Europe for its educated workforce and second (after Germany) for the skills of the workers. (Sweeney, 1999:117)

Quantity of Human Capital -Workforce.

The role of human capital plays a big part in the decision of an MNC to invest in a particular country. Ireland has been described as having ‘one of the highest rates of increase in the stock of human capital anywhere in the world.’ (Smith, 2002:130)

Employment levels have increased by a third from 1993 to 2002. (Smith, 2002:130)

In the last decade there has been a change in the population structure in Ireland. Firstly, Ireland has one of the youngest and fastest-growing populations in Europe, with 40 percent of the population younger than twenty-five years old. (Burns, 2001:14) The expanding labour force has also been boosted by an increase in the rate of female participation in the workforce and net immigration into the country. (Mac Sharry and White, 2000:362) In the 1980s, when the economy was at a low, and unemployment high, this resulted in a massive brain drain. (O’Riain and O’Connell, 2000:324) Decades of educated engineers have immigrated back to Ireland, creating a large pool of ‘globalized Irish’ who were eager to follow the flow of capital to Ireland and work for global corporations. (O’Hearn, 2000:114)

In the 1980s the IDA introduced an advertising campaign that would switch the focus of attention away from tax incentives and finance, but instead highlighted Ireland’s educated and young workforce. The campaign slogan, “We’re the Young Europeans”, influenced business leaders to think of Ireland as having a very important asset that of human capital. White argues that the bright, educated, young people that Ireland has to offer are

just the qualities that “served to distinguish Ireland from her European competitors in the battle for industrial development.” (Mac Sharry and White, 2000:209)

Quality of Human Capital- Education.

Michael Porter argues, “Education is decisive in attracting foreign Direct Investment when competing with other nations.” (Porter, 1990:628) Similarly, the IDA and the Irish government believe that education is “the essential foundation on which a successful economy and a fulfilling economy are built.” (IDA Annual Report, 2001:2) The Irish Government has made concerted and explicit efforts to foster economic growth by developing human capital through interventionist education policies. (Coe, 1999:38)

Education in Ireland had been neglected in the post-war period, unlike other West European countries. In the 1960s the Irish government began to reform and invest in education. Irish educational policy began to focus primarily on business interests, particularly the perceived needs of export-orientated industry. In 1966, a report funded by the OECD and the Irish state, analyzed education in Ireland in the context of the state’s commitment to export-orientated growth. It explicitly recommended, “The educational system would henceforth be assessed by its capacity to facilitate the achievement of these new economic objectives.” (O’Hearn, 2000:11) In 1967 free education was introduced which led to increased participation rates in education. (Sweeney, 1999:117)

In 1980, the Government White Paper on Education policy contained one criterion by which to evaluate public education policy: “higher education provision must match

labour market needs.” (O’ Hearn, 2000:110) The Irish state has been dedicated to the mobilization and restructuring of local society through the creation and shaping of a “suitable labour force”. The state then began to push the population away from historically popular professions, using its capacity to shape labour supply to expand the number of vacancies in certain target sectors, such as engineering, computer science and technical fields. (O’ Riain and O’Connell, 2000:323) New colleges were built and sponsored by the government, which focused specifically on fields such as technology and engineering. The government also put pressure on the existing universities to change their own specific orientations, to that of technical and scientific education, and to foster links with industry. (O’ Riain, 2000:10)

By 1985, US computer firms began to seek out locations from which to launch an export assault on the “European big market”, and Ireland found itself right in the ‘niche’, with a huge surplus of low-waged English speaking technicians and engineers waiting to be employed. (O’ Hearn, 2000:11) The Irish government and the IDA were now able to market Ireland to foreign firms with the youngest, most educated population in the EU. (Byrne, 2002:1)

The Irish education system has been long recognized as one of the most “successful in the world in meeting the needs of business.” (IDA Annual Report, 2001:2) Tony O’Hanlon believes that the quality of the Irish workforce is extremely high. O’Hanlon says, “The skill sets that are there are evident by the companies that have been attracted

to Ireland, namely the top-quality tier of U.S. telecom and technology companies have located here because of that skill set.” (O’Rourke, 2001:2)

The IDA believes “education has played a major part in the impressive growth of the Irish economy in the last decade. Our highly skilled graduates have been a key attraction for inward investors.” (IDA Annual Report, 2001:2) Sweeney argues that the “contribution of education to economic output is one of the main reasons why many MNCs invest in Ireland.” (Sweeney, 1999:117) In the opinion of many industrialists, Irish educational standards had emerged as a real strength in attracting FDI. (Mac Sharry and White, 2000:243)

In 1999, between 40 and 50 percent of Irish citizens entering the workforce had experienced third-level education, compared to 20 percent in the EU. 80 percent of those entering the workforce had Leaving Certificates. In contrast with the older generation, those aged over 65, only a third went beyond primary level, and less than 10 percent had third-level education. Therefore the increase in higher education since the sixties is highly significant. (Sweeney, 1999:117)

The IDA argues that education will continue to play a major role in the future, concerning FDI. It argues that Ireland can continue to be successful economically over the coming years if Ireland positions itself as a ‘knowledge rich, innovative and creative society and economy’, rather than one that has merely cost advantages, such as tax. (IDA Annual Report, 2001:2) Ireland is ready to meet the challenges in ensuring that Ireland’s

education meets future needs. These include; raising public awareness of the importance of sciences; increasing participation from third level and beyond in science, technology and engineering disciplines, and finally, investing in Research and Development capabilities both in universities and in industry. (IDA Annual Report, 2001:3)

10.2.1.3. Competitive Wages.

It is argued that Ireland is the first choice for many investors, due to the availability of skilled staff at relatively low wages compared to other parts of Western Europe. (Coc, 1999:50) Newsweek reported in December 1996, that, "Foreign corporations looking for a low-cost English speaking home in the EU are enchanted by Ireland." (Hyland, 1998:5) The costs of operating in Ireland, including employment costs, are lower than in other European countries. A productive and flexible workforce enhances this advantage. (IDA:Ireland, 2003:4)

Sweeney writes in his book, *The Celtic Tiger: Ireland's Continuing Economic Miracle* that "Globalization demands stability and social cohesion, which a consensus approach to economic and social problems can facilitate." (Sweeney, 1999:100) Corporatist partnerships and a consensus approach between the Irish government, the trade unions and big business is a major key to Ireland's success. (Hyland, 1998:3) Ireland's main political parties, trade unions and employers have a general agreement on the broad direction of economic and social policy. Tripartite programmes have successfully operated in recent years to bring about stability, social cohesion and wage moderation. (Economy of Ireland, 1998:3)

Since independence, two parties have dominated government, Fianna Fail and Fine Gael. However, by the 1980s the inability of the Irish bourgeoisie to contain the class struggle through its traditional mechanisms of paternalism and social reform had significantly weakened these parties. (Hyland, 1998:3) Fianna Fail, once considered the “natural party of government”, failed to reach a majority in parliament in 1987. In response, the party turned to the so-called workers organizations to implement their plans and gain support. (Hyland, 1998:3) These workers organizations were called the “Irish left” and included parties such as the Labour Party, the Workers Party/Democratic Left and the Trade Unions. They responded positively to the challenges of global competition and did not believe that more public spending was the solution to Ireland’s economic and social problems. In this period, according to Sweeney, “Labour appeared to be the party that no government could do without.” (Hyland, 1998:3)

In 1983, the Socialist Economist Group, produced a report entitled, “Jobs and Wages- the True Story of Competitiveness.” This report argued that Ireland should not compete with the Asian Tigers simply on the basis of low wages, but on “sophisticated high value products.” (Hyland, 1998:4) It urged the government to encourage industrial and structural change and recommended that the government give the unions a greater say in the management of the economy. (Hyland, 1998:4)

The bad economic climate and pressure from the ‘Irish left’, forced the government to find a solution to deal with these problems. Since the state’s main goal was to create an

attractive environment relative to TNCs, the state decided to concentrate on creating better physical and 'human' infrastructures. (O'Hearn, 2000:9) This meant that the state would have to improve labour skills and flexibility. The solution to macroeconomic recovery was a series of partnership programmes, agreed on by the government, employers and trade unions, which would increase worker flexibility and constrain wage rises in exchange for tax cuts. (O'Hearn, 2000:9) The minister of Finance has always urged that the social partnership programmes must be "consistent with maintaining the economy's underlying competitiveness". (Smith, 2002:132)

The four 'National Recovery Programmes' implemented from 1987, have been used to discipline the working class, prevent strikes and hold down wages. (Hyland, 1998:3) The first programme was in operation between 1988-1990. It was called the "Programme for National Recovery", and consisted of partnership deals between the workers, trade unions and government, which emphasized fiscal and monetary stabilization, tax reform, pay moderation and sectoral development on the basis of consensus. (Economy of Ireland, 1998:1) It also secured trade union support for cuts in public spending. (Hyland, 1998:3)

The second and third programmes were called, the "Programme for Economic and Social Progress" (1991-1993) and the "Programme for Competitiveness and Work" (1994-97). These two programmes were similar to the first programme, with agreed pay increases and agreements on many policy areas, such as tax reform and social equality. (Sweeney, 1999:101)

The fourth programme was “Partnership 2000” (1997-2000). This programme was designed to take Ireland into the new century, and was agreed upon by all interest groups. It covered a wide area, setting out targets and agreed strategies. Partnership at enterprise level was a key part of this programme, which represents major challenges and culture changes for many enterprises. Under this programme, the rate of increases in pay for workers was moderate, but it was accompanied by promises of tax reduction, which was then fulfilled, thanks to the outstanding performance of the economy. (Sweeney, 1999:102) Minimal wage increases were kept below the inflation rate and largely paid for through tax breaks. (Hyland, 1998:4)

According to O’Donnell and O’Reardon, “the social partnership approach produced the much-needed recovery from the disastrous early and mid-1980s and has underpinned a sustained period of growth since then.” (Sweeney, 1999:99) Mc Mahon argues that the holding down of wage rates by these agreements was important for making Ireland more competitive in attracting companies which resulted in growth. (Powell, 2003:431) In 1991, the OECD issued a report, giving the reasons for Irish economic improvement, stating, “This good performance owes much to the broadly based consensus which has allowed macroeconomic policies to focus on the medium term.” (Sweeney, 1999:80) It also said that the 1987 “Programme for National Recovery” had succeeded, “with marked beneficial effects on interest rates and business confidence.” (Sweeney, 1999:80) The OECD listed improvements in: investment, productivity, profits, low inflation and growth, at almost five percent for the previous two years. (Sweeney, 1999:80)

The partnership agreements have played a critical role in facilitating the right kind of environment for growth. (Maclean, 2000:47) Cassidy argues that wage restraint and peaceful industrial relations in Ireland have “improved the cost competitiveness of the traded sectors, permitted an expansion in the level of employment, and improved incentives for both domestic and foreign investment.” (Cassidy, 2002:21) The ‘Social Partnership Approach’ has also been cited as having been central in the turnaround of Ireland’s public finances, again helping to promote a stable environment for foreign investors. (Smith, 2002:130) With the help of the agreements, the trade unions imposed order in the workplace, where the number of days per year lost to strikes, fell from an average of 316,000 a year between 1980-1987 to under 110,000, a year between 1988-1996. (Cassidy, 2002:21) Sweeney believes that in the absence of these agreements, income determination would have been more fractious, with more strikes and higher pay settlements for the most powerful groups. (Sweeney, 1999:103)

Sweeney argues that the Irish social partnership has passed the experimental stage and is now rooted in society. “Increased competitiveness, recognized by the unions in most local bargaining agreements, made partnership essential for the country to progress and prosper”. (Sweeney, 1999:105) New demands from the market and new forms of working in Ireland since the early 1980s has made trust and agreement essential to achieve quality and competitive output. (Sweeney, 1999:105)

Sweeney says, “The Irish trade union movement is ahead of other European countries in developing partnership at enterprise level.” (Hyland, 1998:40) He also argues that “the

Irish trade unions have recognized the imperatives of competition, in all its complexity, faster than unions in other countries because of the high level of multinational penetration into the economy and because they have become accustomed to change.” (Hyland, 1998:4)

10.2.1.3. Infrastructure.

Michael Porter argues that a modern and improving infrastructure is essential if a country wants to upgrade its nation’s industry and encourage investment. (Porter, 1990:637) The IDA feels the same and has always campaigned that Ireland needs an attractive business environment in order to increase investment. Key to this environment is a modern and developed infrastructure. With the advice of the IDA, the Irish government was prepared to undertake any necessary infrastructure works needed to attract and develop industries. (Byrne, 2002:1) The Irish government has thus heavily invested in projects aimed at improving infrastructural shortcomings. (Burns, 2001:14) It influenced changes in graduate output and better telecommunication, and pioneered American-style business parks. (Mac Sharry and White, 2000:312)

Ireland also has a great advantage over other European countries when attracting US investment, because of the speed of response and agility that it displays in meeting the changing needs of business. In the past decade, many international companies have had to undergo a transformation to keep up with globalization, technological advances and the adoption of new business models. Ireland was the perfect location, as it could keep up

with the pace and flexibility of the changing, globalized, economic environment. (IDA Annual Report, 2001:2)

Telecommunications:

Globalization and the digital revolution require that every business, small or big, trading domestically or internationally, needs to plan and prepare for e-business. (IDA: Ireland, 2003:3) The Irish government began to plan for these changes and the telecommunications system in Ireland was overhauled to attract the best computer and Information technology companies to Ireland. (Byrne, 2002:1)

Ireland has invested over US\$5 billion in telecommunications infrastructure development in the last ten years and now offers a reliable fully digital telecommunications system. This investment means that Ireland has one of the most advanced telecommunication systems in Europe and is now moving towards establishing itself as a leading European location for digital business. (IDA: Ireland, 2003:3) Ireland is also one of the first countries in the world to have introduced comprehensive e-commerce legislation in support of its objective of becoming a global leader in e-business. (Burns, 2001:14)

The telecommunications market is now fully liberalized, with more than seventy-four licensed operators. (Burns, 2001:14) Over 75 percent of users around the world are connected to digital exchanges in Ireland. (Coe, 1999:39)

Property:

Ready-made property solutions are a key tool in winning favorable location decisions by investors. The Irish Government and the IDA have developed a 'Property Development Policy', that provides solutions to winning the investor's decision to invest in Ireland. (IDA Annual Report, 2001:10) The IDA aims to have high quality, high profile Business and Technology Parks, with the appropriate quality buildings available, in all key large towns across Ireland. (IDA Annual Report, 2001:10) The IDA works closely with the private sector to ensure the availability of property throughout the country. Up to 64 million Euros is being invested by private developers in new high quality properties across the country in order to provide a range of options for potential foreign investors and to meet their requirements. (IDA: Ireland, 2003:3)

IDA Ireland is also closely involved in the development of new Digital Parks in order to stimulate the e-Business and Internet developments in Ireland. (IDA:Ireland, 2003:3)

Transport:

Ireland has invested heavily in its transport and communications infrastructure. Ireland has produced cost-effective distribution networks for exporting a variety of products to European markets in short periods of time. (Coe, 1999:39) Ireland has made numerous plans to improve and upgrade existing railroads and to build new lines, linking new industrial areas all over Ireland. It has an excellent international air transport infrastructure, and development in Dublin's docks has been ongoing.

10.2.2. External factors.

10.2.2.1. The EU and Structural Funds.

Ireland made a major advance when it joined the European Community in 1973. As commentator Halligan puts it, "It's very generally accepted that Ireland's membership of the European Union, has been critical to Irish economic success." (O'Rourke, 2001:2)

The European Union is a major economic player on the global scene and is also an integrated and integral part of global economic development. (Kuhnhardt, 1996:147) The EU provided Ireland with two advantages; access to a huge market and billions of dollars in development funding through the Structural Funds. (O'Rourke, 2001:2)

Once Ireland confirmed that it would join the European Community in 1973, the IDA focused on promoting Ireland as a base for international investment, highlighting it as a profitable and strategic location within the community. (Mac Sharry and White, 2000:178) In the advertising and marketing campaigns conducted by the IDA, Ireland was portrayed as an integral part of a large wealthy market. (Mac Sharry and White, 2000:178) The IDA argued that Ireland had access to a giant European market of more than 300 million people. (O'Rourke, 2001:1) It also stressed, in presentations to potential investors, that Ireland was a full and equal member of the European Community, with a direct input into the political decisions affecting business. (Mac Sharry and White, 2000:178)

The European Union and Single Market:

The Single Market of the EU is aimed at integrating the individual national markets of the EU member states. Barry and Hannon describe the measures for the Single Market which includes; the relaxation of border controls, the harmonization of technical standards, the opening up of public procurement and the liberalization of financial and other service sectors. These measures are aimed to facilitate efficiency-enhancing industrial restructuring and, by promoting competition, to reduce price discrimination across national markets. (Barry and Hannon, 1998:4)

The moves towards European Monetary Union have brought home to US MNCs the need to have footholds in the expanding European Union Market. (Murphy, 1998:5) In the late 1980s US FDI inflows into Europe expanded quite dramatically. The US Department of Commerce Survey of Current Business attributes much of this to the Single Market Initiative. (Barry and Hannon, 1998:6) Many MNCs chose Ireland as their location for their operations in order to penetrate the Single European Market (SEM). (Hyland, 1998:1) The share of inflows into the EU benefited Ireland dramatically, therefore the Single Market Programme proved highly beneficial for the Irish economy. (Barry and Hannon, 1998:6) Ireland's credibility as an export platform for the European market was greatly enhanced when the single market initiatives were completed in 1992 and the European Community removed the residual barriers to genuine free trade. (Mac Sharry and White, 2000:178) Ireland then had accessibility to the European market, without tariffs or non-tariff barriers. (Sweeney, 1998:136) Ireland's decision to join the Euro currency zone has also been a major incentive for investors. By joining the Euro, it

dramatically reduces barriers against financial flows to and from other euro zone countries. (Gray, 2002:41)

In geographic terms, Ireland is strategically located in relation to a key growth region in the world economy, namely the European Union. (Coe, 1999:39) Ireland is a country with a small domestic market of 3.6 million people and is situated on the western edge of Europe, separated by two strips of sea from the main European markets. However, membership into the European Union has helped Ireland to overcome the limitation of being a small peripheral island economy. (Mac Sharry and White, 2000:179)

The US IT market requires an arena for manufacturing and localization. In the modern economy, Western Europe and the Asia Pacific are the main contenders. US companies have rapidly expanded their operations into the European markets since the mid-1980s, but above all other countries, Ireland has been able to benefit from the need for manufacturing and localization centers. (Coe, 1999:44)

Europe has always been crucial to Ireland as a trading partner, with over two-thirds of Irish exports now going to other member states. Many investors see Ireland as an export route to Europe. (Smith, 2002:129) Ireland's highly efficient distribution network brings most of Europe within 24-48 hours by truck, and an increasing amount of corporations are gaining additional advantage by centralizing their pan-European distribution logistics to Ireland. (IDA: Ireland, 2003:3) The experience of other multinational firms located in Ireland, already demonstrated to potential companies that Ireland could produce goods

and services very profitably and efficiently, with reliable and speedy delivery to any part of Europe (Mac Sharry and White, 2000:179)

The Structural Funds:

Ever since Ireland entered the European Community in 1973, the EU has exercised a positive influence on the Irish economy, both in economic long-term planning and financial assistance. (Mac Sharry and White, 2000:362) When Ireland entered the European Economic Community in 1973, Ireland received structural assistance from the Regional Development and Social Funds. (Barry and Hannon, 1998:3) The EU has given structural funds to the less developed regions within the union, particularly the poorer states, such as Portugal, Greece, Spain and Ireland. It was argued that poor and peripheral areas of the EU could lose out economically with the establishment of the Single Market, therefore the funds were designed to help countries 'catch up' to their European neighbours. (Sweeney, 1999:85)

In 1988, as Ireland and the European Union moved towards single market completion, the range of structural funds programmes were reformed, reorganized and expanded. (Barry and Hannon, 1998:12) Ireland has always been considered a poor region within the European Community and was eligible for significant amounts of EU aid. (O' Hearn, 1998:64) The EU funds were similar to a mini Marshall Plan to help the Irish economy out of recession. (Sweeney, 1999:90)

The Community Support Frameworks (CSF) was developed with the aim of promoting economic and social cohesion throughout the EU. (Barry and Hannon, 1998:12) The first CSF ran from 1989-1993, and the second from 1994-1999. A combination of community, domestic and national authorities and domestic private-sector finance funded these programmes. The significance of the Structural Funds was that they were a means by which a variety of new, sometimes experimental, measures could be taken. The Irish state had put together some significant capital before without being able to develop the economy around them. The Structural Funds gave state agencies, such as the IDA, the opportunity to spend on new measures and ideas. (O'Riain, and O'Connell, 2000:323)

The bulk of the spending from these funds was spent on physical infrastructure such as roads, and on other transport facilities such as ports and airports. (Barry and Hannon, 1998:12) Funds were also invested in telecommunications and universities, thus investing in human capital, largely in training. Most of the investments were capital intensive with a large import content, and had a multiplier effect on the economy, thus generating economic activity elsewhere. (Sweeney, 1999:86)

David Duffy of the Economic and Social Research Institute in Dublin points out some of the advantages of EU membership, "EU membership has been very important in many ways. One way was in the structural funds. The money Ireland received from Europe was important not only in the amount involved, but because of the timing. The fact that the structural and cohesion funds were made available to the EU's peripheral states in preparation for the single market allowed the Irish government to continue to invest in

infrastructure, education and training at a time when they were trying to cut back its own expenditure.” (O’Rourke, 2001:2) The funds came at a crucial time. In 1989, Ireland’s debt was just past its peak, and economists were pushing for massive expenditure cuts. (Sweeney, 1999:87) If Ireland had not received the funds when it did, Ireland would never have been able to afford to build the infrastructure, which helped to generate a prolonged economic boom that it still enjoys. (Sweeney, 1999:87) Between 1994-2000, the EU has channeled more than \$35 billion to build and refurbish Irish roads, bridges, airports, seaports, communications and a host of other infrastructure assets. (Maclean, 2000:47) The decision by the Irish government to use these funds in areas such as infrastructure has paid off considerably. A modern infrastructure is a vital factor in encouraging investment.

The EU’s Court of Auditors has praised Ireland as being the ‘model country’ in spending probity and effectiveness. The Court of Auditors, however, has raised question marks over the effectiveness of spending in other small European Structural Assistance states, such as Portugal and Greece. The Irish government invested wisely, and the measures and money to upgrade infrastructure helped considerably to generate economic growth. (Sweeney, 1999:86)

Ireland has received a lot of funding through the Common Agricultural Policy. However, the benefits of these funds will not be discussed here. The reason for this is, firstly; that agricultural output has not contributed to Ireland’s dramatically improved output performance over the years and secondly, employment in agriculture has fallen in the last

decade or so. Since this paper looks at strong economic performance and investment, agriculture is therefore not relevant. (Barry and Hannon, 1998:3)

In 1999, Ireland received a further 2.9 billion pounds from the European Structural Funds for the period 2000-2006. However, once Ireland has reached a per capita GDP of 80 percent of the EU average, it stands to lose EU transfers and funds. (O'Hearn, 1998:87) By 2006, it is expected that Ireland's living standards and its GDP will have reached such a high level that the country will no longer qualify for much in future EU transfers. (Sweeney, 1999:220) Ireland has also begun a process of being 'weaned' off its transfers since 1999, to make funds available for poorer new entrants when the EU enlarges to the East. (O'Hearn, 1998:87)

11. Conclusion.

Ireland has faced many challenges in the past forty years. Failed attempts at industrial development pushed them towards a path of near destruction. Had the growth in the 1990s not occurred, many liberals would cite Ireland, as a textbook example of how small states cannot meet the challenges in an integrated globalized world. Ohmae's statement that the "nation-state has become a dysfunctional unit for managing economic endeavour in a borderless world," would have related to Ireland. (Douglas, 1997:2) However the opposite is true. The Irish state is now often presented as an example of how small states can flourish in this new world order. (Smith, 2002:127) Smith argues, "Rather than withering away as the globalization thesis might predict, the Irish state appears to have

played an increasingly assertive role in relation to industrial policy in recent years.”
(Smith, 2002:130)

The assumption that the Multinational Corporation is threatening the survival of the state system is also completely unfounded in this case. ‘The Economist’ has stated in the past, “If any country lends substance to the cliché that the global economy is an opportunity not a threat, it is Ireland.” (Smith, 2002:130)

The Irish state has been a relatively flexible state. It has adapted itself successfully to a number of opportunities that have presented themselves through the global market. With a decentralised, flexible structure, change in any one part of the state has been significantly easier to carry out than in a highly integrated and bureaucratic state structure. (O’Riain and O’Connell, 2000:314) A flexible developmental state is built around a ‘loosely coupled’ organizational model; therefore state intervention in the economy is through a state agency. (O’Hearn, 2000:10) The IDA has been responsible in promoting foreign investment into Ireland, and its ideas and policies have created a new dynamic of growth and improved living standards, within an ongoing process of integration into the global economy. (O’Riain and O’Connell, 2000:315)

The government, together with the IDA, have followed McLoughlin’s ‘closed loop’ model precisely, targeting industrial sectors such as pharmaceuticals, IT and software, and finding the best companies within each sector. The IDA was then successful at persuading those companies to invest in Ireland. With the IDA’s advice, government

policy towards areas such as education, tax reform, wage moderation and infrastructure were changed and upgraded in order to suit investor's needs. The government's policies towards the European Union and the Single Market helped its campaign considerably. Ireland's use of the structural funds in particular areas, concerning industrial development, gave Ireland the boost it really needed in order to upgrade certain sectors.

The role of state policy is undoubtedly important in the era of globalization. Michael Porter identifies five roles that government should play in order to achieve a competitive economy in an integrated world. Ireland has pursued each and every role. Firstly, Porter argues that government should create 'macroeconomic stability'. This has been achieved in Ireland, by cutting back on public spending through the Fiscal Stabilization Programme and creating an industrial policy that would best suit the country. Secondly, governments can "improve the economy by improving the efficiency and quality of the inputs to business, such as physical infrastructure and an educated workforce." (Porter, 1998:244) The Irish government has spent a lot of money on upgrading their physical infrastructure, and developing interventionist education policies that have created a whole generation of 'educated Irish'. Porter's third role, calls for the establishment of "the rules and the incentives governing competition." (Porter, 1998:244) The Irish government has made several policy choices regarding tax, which has had a direct impact on competition. The government's latest decision on tax, to create a 'uniform corporation tax structure', has been the most effective way to rebut accusations of 'tax haven' and yet still remain at a competitive advantage compared to other EU countries. (Murphy, 1998:31) The government also fulfilled Porter's fourth role of, "facilitating cluster development and

upgrading'. This was done by establishing business parks and developing the infrastructure around them. (Porter, 1998:244) Finally, the last role that the Irish government fulfilled was in "implementing a long-term economic action program". (Porter, 1998:244) This was achieved through the four 'National Recovery Programmes', Ireland's participation in the European Union and its decision to fully embrace the Euro.

The Government's industrial policy has been extremely influential in generating the Irish economic success of the 1990s. The economic 'miracle' of Ireland, was not essentially a 'miracle', it was the culmination of economic, social and political forces, that came together in a benign conjuncture in which the economic boom took off. (Sweeney, 1999:229) Ultimately, "nations succeed in particular industries because their home environment is the most forward-looking, dynamic and challenging." (Porter, 1998:155)

There is concern that Ireland is far too dependent on foreign direct investment. O'Hearn argues that Ireland is vulnerable to changing flows of international capital, because Ireland's export growth is so concentrated in US computer and pharmaceutical firms. A slump or closure in these sectors could leave Ireland stagnant. (O'Hearn, 2000:14) For example, if there is a downturn in the demand for computers, Ireland could be hit badly. However this is not necessarily true, as Ireland's exports are not just in personal computers, but also in a lot of computer-related products, and different companies and many markets. (Sweeney, 1999:217) Even though competition between computer companies is driving the cost of computers down, Ireland is responding by using its highly skilled workforce as a competitive advantage. (Sweeney, 1999:217)

If a slump in one sector occurred, Ireland's economy is flexible enough to support a change. The Irish have succeeded in developing their economy in the 1990s, but development does not stop there. Ireland, like any other state in the international economy is aware of the challenges that the global economy presents. Ireland must continually adapt to new international challenges, search for more profitable technologies, cost reduction, better marketing techniques, and a continuous growth in education. (Kuhnhardt, 1996:158) The biotechnology sector is a prime example. The IDA and government are already preparing to target this highly globalized and profitable market. As mentioned before, Ireland is investing heavily in educating and equipping graduates in this sector, and assessing the locational and infrastructural needs in order to win over this lucrative market. (IDA Annual Report, 2001:10)

Multinationals do play a key role in the Irish economy, and although Ireland may be more dependent on MNCs now, than ten years ago, it is also fundamentally lessened that dependence by creating an indigenous manufacturing and informational industry complex. (O'Riain, 2000:19) Indigenous companies are now adjusting to foreign trade. (Sweeney, 1999:131) The IDA argues that there are greater linkages between the MNC sector and the domestic economy, which is important for the long-run health of the economy. (Sweeney, 1999:145) The best response to the dependence on FDI, according to Sweeney, is "to ensure that investing MNCs remain in Ireland, set down roots, build linkages with the local economy and wish to expand here and behave as good corporate

citizens. It is also good to develop and retain indigenous industry in Ireland and to build linkages with the MNC sector.” (Sweeney, 1999:148)

Given Ireland’s economic history, most Irish people today recognize that if Ireland is to go on the “High road, as opposed to the Low Road strategy”, the High Road being high technology, high productivity, flexibility, innovation, it needs foreign Multinational companies. (Sweeney, 1999:144) MNCs have created a lot of wealth in Ireland, but one cannot always guarantee that capital flight is not possible. Until 2000, Ireland never had any major foreign investments fleeing the country. Strobl argues, “Foreign multinational manufacturing plants actually stay longer in Ireland than Irish owned firms. They stay for thirteen years on average compared to ten years for indigenous firms.” (Sweeney, 1999:144)

The relationship between state and market is an intimate one, however the state still remains the protector and guarantor of security and order as a sovereign state cannot be subjected to any external jurisdiction. One must recognise that the state has gone through some fundamental changes to accommodate these external forces, and their relationship sometimes may seem very close and strong. However, the null hypothesis is incorrect in its assumptions that the nation-state accommodates these forces to the extent that the market will ultimately gain control over the nation-state. Instead, in conjunction with the mercantilist hypothesis, Ireland has not given up its power to market forces. The Irish government was deeply involved in the entire integration process, and manipulated the market in order to maximise its own interests. The nation-state is still strong, and the

intensification of global processes has actually made the role of states more important, as an effective state becomes critical to promoting competitiveness within the global economy. (O'Riain and O'Connell, 2000:311)

The Irish Government and the IDA have played centre stage in promoting competitiveness in the global economy. Its efforts to create an environment that is suitable to FDI, by upgrading 'factors of production', and its role as 'hunter and gatherer', has proved to be successful. (Riain and O'Connell, 2000:315) The Irish nation is proud of their country's economic growth. They finally believe that they are a part of a modern nation, no longer dependent on more powerful countries, and especially, fully equal to Britain. Irish citizens can now be proud of making their own dynamic contribution to world culture and the world economy. (O'Hearn, 1998:87)

References.

- Balaam, D and Veseth, M. 1996. *Introduction to International Political Economy*. New Jersey: Prentice Hall.
- Barry, F. and Hannon, A. 1998. The EU Dimension to Recent Irish Growth: The Single Market and the Structural Funds, in *Centre for Economic Research: Working Paper Series*. Department of Economics: University College Dublin.
- Bohman, J. 1999. International Regimes and Democratic Governance. *International Affairs*. 75(3):499-513.
- Brown, D. 1998. Globalisation, Ethnicity and the Nation-State: The Case of Singapore. *Australian Journal of International Affairs*. 52(1):35-47. [Online]. Available:[www.wysiwig://bodyframe.6/http://ehostvgw19...ON%20AND%THE%20STATE%20%29%fuzzyTerm=\[2001/05/19\]](http://www.wysiwig://bodyframe.6/http://ehostvgw19...ON%20AND%THE%20STATE%20%29%fuzzyTerm=[2001/05/19])
- Bull, H. 1977. *The Anarchical Society. A Study of Order in World Politics*. New York:Columbia University Press.
- Burns,M. 2001.High Tech Shudders for the Celtic Tiger. *Europe*. May (406):14.
- Byrne, P. 2002. Industry Policy Behind Celtic Tiger's Success. *News Weekly*. [Online]. Available: http://www.newsweekly.com.au/articles/2002jan26_eire.html. [2003/04/14].
- Cable, V. 1999. *Globalization and Global Governance*. London:Chatman House.
- Cassidy, M. 2002. The Irish Economy:Recent Experiences and Prospects in Munley, V. Thornton, R and Aronson, R. (eds) *The Irish Economy in Transition: Success, Problems and Prospects*. Elsevier Science: Oxford.

- Castles, S. 2001. Studying Social Transformations. *International Political Science Review*. 22(1):13-32.
- Caves, R. 1995. The Multinational Enterprise as an Economic Organization, in *International Political Economy* by Frieden and Lake (ed). Routledge:London.
- Chikuhwa, T. 2000. *Globalization and Regionalism: Liabilities and Possibilities for Africa*. Masters Thesis (Unpublished.), UCT: Cape Town.
- Chisinga, B. 2001. Africa and the Globalizing World Economy in the New Millenium. in *Africa and the New Millenium* by Maloka and le Roux (ed). African Century Publications: Pretoria.
- Clark, B. and Woodward, S. 2002. The Celtic Tiger. *The Lawyer*. [Online]. Available: <http://www.lawyer.com/lawyernews>. [2002/08/15]
- Clinch, P. Convery, F and Walsh, B. 2002. *After the Celtic Tiger..Challenges Ahead*. O'Brian Press: Dublin.
- Coe, N. 1999. Emulating the Celtic Tiger. A Comparison of the Software Industries of Singapore and Ireland. *Singapore Journal of Tropical Geography*. 20(1):36.
- Coleman, W. 2000. International Institutions, Globalisation and Democracy:Assesing the Challenges. *Global Society: Journal of Interdisciplinary International Relations*. 14(3):377-399.
- Costilla, L. 2000. The Reconstitution of Power and Democracy in the Age of Capital Globalization. *Latin American Perspectives*. 27(1): 82-105.
- Cyr, A. 2001. Guides to Globalization. *Orbis*. 45(2):295-306.

- Devetak and Higgott. 1999. Justice Unbound? *International Affairs*. 75(3):483-498.
- Dearlove, J. 2000. Globalization and the study of British Politics. *Politics*. 20(2):111-117.
- Delbruck, J. 1995. *Global Migration-Immigration-Multi-ethnicity: Challenges to the Concept of the Nation-State*. [Online]. Available:<http://www.law.indiana.edu/glsj/vol2/delbruck.html> [2001/05/23]
- Douglas, I. 1997. Globalization and the End of the State? *New Political Economy*. 2(1) 165-178.
- Durkin, J. 2002. FDI:The Case of the Electronics and Pharmaceutical Industries in Munley, V, Thornton, R and Aronson, R. (eds) *The Irish Economy in Transition: Success, Problems and Prospects*. Elsevier Science: Oxford.
- Economist. 2000. Gimme Shelter. *Economist*. 354(8155):15.
- Economy of Ireland. 2003. [Online]. Available: <http://www.irelandnow.com/facts/economy.html>. [2003/05/05]
- Falk, R. 1999. *Predatory Globalization*. Cambridge: Polity Press.
- Fanning, C. and Murphy, C. 2002. Nurturing Indigenous Entrepreneurship in Ireland in Munley, V, Thornton, R and Aronson, R. (eds) *The Irish Economy in Transition: Success, Problems and Prospects*. Elsevier Science: Oxford.
- Farazmand, A. 1999. Globalization and Public Administration. *Public Administration Review*. Nov/Dec. 59(6): 509-527.

- Felice, W. 1999. The viability of the United Nations approach to economic and social human rights in a globalized economy. *International Affairs*. 75(3):563-598.
- Fieldhouse, D. 1995. "A New Imperial System?", in *International Political Economy* by 22. Frieden and Lake (ed). Routledge: London.
- Ford, P. 2001. Need Software in say Icelandic? Call the Irish. *Christian Science Monitor*. 93(50):1.
- Foreign Policy. 2001. Measuring Globalization. *Foreign Policy*. Jan/Feb: 56-65.
- Foreign Policy. 2003. Measuring Globalization: Who's Up, Who's Down.? *Foreign Policy*. Jan/Feb (134):60.
- Gaburro, G. and O'Boyle, E. 2003. Norms for Evaluating Economic Globalization. *International Journal of Social Economics*. 30(112):95-118.
- Gilpin, R. 1987. *The Political Economy of International Relations*. Princeton: Princeton University Press.
- Gilpin, R. 1992. Three Models of the Future. in *International Politics: Enduring Concepts and Contemporary Issues* by Art, R and Jervis, R. (ed). Harper Collins: New York.
- Gilpin, R. 2000. *The Challenge of Global Capitalism: The World Economy in the 21st Century*. Princeton: Princeton University Press.
- Gray, J. 2002. Globalization's Last Hurrah? *Foreign Policy*. Jan/ Feb(128):38
- Hertz, N. 2001. *The Silent Takeover: Global Capitalism and the Death of Democracy*. London: William Heinemann.
- Hirst and Thompson, 1996. *Globalization in Question*. Polity Press.

- Hyland, J. 1998. What Makes the Celtic Tiger Run? *World Socialist Website*. [Online]. Available: <http://www.wsws.org/news/1998/celt-j16.shtml>. [2003/05/05]
- IDA Ireland. 2001. *IDA Annual Report*. [Online]. Available: <http://www.idaireland.com>. [2003/06/05].
- IDA Ireland. 2003. *Why Ireland*. [Online]. Available: http://www.idaireland.com/why_Ireland. [2003/06/05].
- Krasner, S. 2001. Sovereignty. *Foreign Policy*. 122:20-27.
- Kirby, P. 2001. Ireland's Paper Tiger. *Foreign Policy*. May/June (124):72.
- Kuhnhardt, L. 1996. *Beyond Divisions and After: Essays on Democracy, the Germans, and Europe*. Peter Lang: Frankfurt.
- Lynch, M. 2000. Globalization and International Democracy. *International Studies Review*. 2(3):91-101.
- Lieber, R. 1991. *No Common Power: Understanding International Relations*. New York: Harper Collins.
- Lopes, C. 2000. Managing the Globalization Process. *UN Chronicle*. 4:19-20.
- Macleans. 2000. The Celtic Tiger. *Macleans's*. 113(34):46.
- Mac Sharry, R. and White, P. 2000. *The Making of the Celtic Tiger. The Inside Story of Ireland's Boom Economy*. Mercier Press: Cork.
- Mc Grew & Lewis. 1992. *Global Politics*. Polity Press.
- Mills, G. 2000. *The Wired Model. South Africa. Foreign Policy and Globalization*. Johannesburg: Tafelberg Publishers.
- Moustafine, M. 1999. Globalization and the changing role of Government. *Australian Journal of Public Administration*. 58(4):126-128.

- Murphy, A. 1998. *The Celtic Tiger: The Great Misnomer*. MMI Stockbrokers: Working Paper.
- New Statesmen. 1999. Can we win the world back? *New Statesmen*. 128(4464):5.
- Ninsen, K. 2000. Globalization and the Future of Africa. *Occasional Paper Series*. 4(1):1-30.
- Nolan, B, O'Connell, P and Whelan, C. (eds). 2000. *Bust to Boom? The Irish Experience of Growth and Inequality*. Institute of Public Administration: Dublin.
- O'Hearn, D. 1998. *Inside the Celtic Tiger. The Irish Economy and the Asian Model*. Pluto Press: Dublin.
- O'Hearn, D. 2000. Globalization, 'New Tigers' and the end of the developmental State? The Case of the Celtic Tiger. *Politics and Society*. 28(1):67.
- O'Riain, S. 2000. The flexible Developmental State: Globalization, Information Technology, and the Celtic Tiger. *Politics and Society*. 28(2):157.
- O'Riain and O'Connell. 2000. The Role of the State in Growth and Welfare in Nolan, B, O'Connell, P and Whelan, C. *Bust to Boom? The Irish Experience of Growth and Inequality*. Institute of Public Administration: Dublin.
- O'Rourke, B. 2001. *How Ireland Unleashed its Celtic Tiger Economy*. [Online]. Available: <http://www.rferl.org/nca/features/2001/11/26112001091243.asap>
- [2003/04/14].
- O'Sullivan, M. 2000. industrial Development: A New Beginning? In J.W. O'Hagan (ed). *The Economy of Ireland. Policy and Performance of a European Region*. Gill and MacMillan: Dublin.

- Porter, M. 1990. *The Competitive Advantages of Nations*. MacMillan Press Ltd: London and Basingstoke.
- Porter, M. 1998. Oh Competition. *A Harvard Business Review Book*.
- Powell, B. 2003. Economic Freedom and Growth: The Case of the Celtic Tiger. *Cato Journal* Winter(22):3.
- Rodee, C. 1967. *Introduction to Political Science*. New York: Mc Graw Hill.
- Rosecrance, R. 1986. *The Rise of the Trading State*. New York: Basic Books.
- Rosecrance, R. 1996. The Rise of the Virtual State. *Foreign Affairs*. 75(4):17p.
- Schwartz, H. 1994. *States versus Markets*. St. Martin's Press: New York.
- Schrire, R. 2000. *Globalization and the state: a view from the South*. University of Cape Town: Working Paper.
- Smith, N. 2002. The Irish Republic- A showpiece of Globalization. *Politics*. 22(3):125.
- Smith, S. 1995. *The self images of a discipline*. University of Cape Town: International Relations course reader.
- Stalker, P. 1995. *States of Disarray: The Social effects of Globalization*. UNRISD.
- Stopford, J. 1999. Multinational Corporations. *Foreign Policy*. Winter 98/99(113):12.
- Sweeney, P. 1999. *The Celtic Tiger: Ireland's Continuing Economic Miracle*. Oak Tree Press: Dublin.
- Tandon, Y. 2000. Globalization and Africa's Options, in *Globalization and The Post-Colonial African State* by D. Nabudere. Print Source: Zimbabwe.

- Tarzi, S. 1995. Third World Governments and Multinational Corporations, in *International Political Economy* by Frieden and Lake (ed). Routledge:London.
- Thomas. 1999. *Globalization, Human Security and the African Experience*. Lynne Reinner Publishers: London.
- Thomas, K. 2000. *Competing for Capital. Europe and North America in a Global Era*. Georgetown University Press: Washington DC.
- Vernon, R. 1971. *Sovereignty at Bay*. Penguin Books: Middlesex.
- . Went, R. 2000. *Globalization, Neoliberal Challenge, Radical Responses*. Pluto Press:London.
- Williams, P, Goldstein, and Shafritz, J (eds). 1994. *Classic Readings of International Relations*. Belmont: Wadsworth Publishing Company.
- Wolf, M. 2001. Will the nation-state survive globalization? *Foreign Affairs*. 80(1):178-191.