

Foreign Investment and Growth vs. Development: A Comparative Study of Ireland and Wales*

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Introduction

A regular theme in the business and popular media has been Ireland, the “Celtic Tiger”, is the model of development for the lagging regions of Canada, perhaps for the entire country. Ireland’s rapid GDP growth through much of the 1990s is the achievement we should aspire to. Its use of low, even zero, corporate profit taxes to attract foreign investment is claimed to be the policy responsible for Ireland’s success.

Academics with more complex explanations of Ireland’s growth nonetheless accept the proposition that foreign investment is an important part of a growth strategy (Fortin 2001; Romsa 2003). Cross (1999: 384) cites a high ratio of FDI/GDP to conclude that multi-national enterprises (MNEs) “...have had and will continue to have a critical role in determining the pace and structure of economic development across Europe...” In Canada, Guillemette and Mintz (2004: 1) advocate that Canada “...reform corporate taxes to enhance the country’s attractiveness as an investment location”. Harris (2005: 5, 6) claims Canada’s poor R&D performance could be offset by technological diffusion through trade and foreign direct investment, even though he recognises that FDI is one of the limitations on domestic R&D activities.

This paper describes the Irish development process. The criteria for measuring successful development are assessed and the economic costs of their foreign investment strategy are considered. Wales makes an interesting counter to Ireland

* David Blackaby, Peter Midmore, Dennis Thomas, and Jill Venus provided useful insights and references during my research on Wales, but bear no responsibilities for errors and omission in this article.

as they share a proximity to the European market and strong traditional economic ties to England. As a region with sunset industries in mining, iron and steel, and fishing, Wales contrasts sharply with Ireland but has similarities with one of the poorest regions of Atlantic Canada, Cape Breton. The economic development of Wales is reviewed and compared to the Irish experience. This permits an evaluation of the relative performance of the two economies and the implications for Canada's regional policies.

Ireland, Then and Now

The latter half of the 20th century saw a major transition for the Irish economy, from an inward-looking, agriculture-base to a high growth, high-tech, export-oriented economy. Ireland's growth experience in the 1960s and early 1970s was mixed – faster than the UK's growth for most years of the 1960s and the 1970s, but generally slower than the Netherlands in the 1960s (Hallet 1981: 24). After joining the European Community in 1973, Ireland out-performed the Netherlands in most years of the 1970s. It is notable, however, that France's growth of GDP per capita exceeded Ireland's throughout most of the 1960s and 1970s (Ibid). In the 1980s, the GDP per capita in Ireland averaged 3.8 % growth, boosted by growth rates of 7.0 and 7.7 % in 1988 and 1989, respectively (World Bank).

When it joined the European Community, Ireland's GDP per capita was 60.8 % cent of the EU average (Romsa 2003: 157). Its growth accelerated in the late 1980s and its "miracle" occurred in the latter half of the 1990s. It achieved the highest growth rate in the EU - but also the second highest volatility in growth rates (Demyanyk and Volosovych 2005: 11). By 2000, its GDP/capita was ahead of the EU average and it graduated from net recipient of EU funding to a net contributor.

Analysing the "Miracle"

The Irish economic transition began with policy changes in the late 1940s. Protectionism for agriculture and for inefficient industries gave way to an outward-looking approach in which foreign investment was an important component. The initial symbol for this change was the decision in 1947 to have a duty-free zone around Shannon Airport. In 1956, export profits were granted 100 % remission of taxes, and in 1960, all restrictions were removed on the repatriation of profits by foreign investors (Walsh 2003: 221). Corporatism was effective for periods in the 1970s and 1980s, with centralized wage bargaining in which unions accepted a trade-off of future personal income tax cuts in exchange for wage moderation (Honohan et al 2002:23). In addition, government acquiesced to foreign firms' demands for union-free work places. It is these policies and a pro-FDI attitude which earned Ireland the reputation as being highly business-friendly.

However, there are other factors important to Ireland's transition. Romsa (2003: 158) cites membership in the European Union as forcing more fiscal

responsibility on the government, bringing deficits and the debt under control. However, membership has its privileges and for Ireland it meant massive subsidies from EU programs. For almost three decades, Ireland received EU subsidies – from the European Regional Development Fund, the highest per capita of any member until 1980 (McAllister 1982: 129). According to Walsh (2003: 213), "net inflows from the EU peaked at about 5% of GDP in the early 1990s..." By 1993, "Community Support Framework (CSF) [transfers]...amounted to around 3.5 % of [Ireland's] GNP" (European Commission 1999: 146).

These EU funds were important for Ireland to build up its infrastructure, provide subsidies and services to businesses, finance human capital investments such as the provision of free tuition, and to deal with the government debt. They aided the transition out of agriculture and the establishment of the pre-conditions for a modern economy.

It should be noted that the bulk of these policies and programs had their greatest impact in the decades prior to the 1990s' period of high foreign investment and the exceptional growth beginning in the mid-1990s. For those who claim that the zero corporate tax is key, it is inconvenient that the surge in FDI occurred after corporate taxes on foreign investments were increased because of pressure from the EU (Walsh 2003: 216-217). Thus, it is logical to argue that the Irish experience shows that rising taxes (and the provision of the government programs they finance) are crucial to attracting foreign investment!

As a sovereign state, Ireland also had the capacity to adjust its exchange rate. Although it was anticipated that Ireland's punt would appreciate after it joined the European Monetary System in 1979, it actually devalued against the mark in 7 of 11 subsequent adjustments (Honohan et al 2002: 9). Two of these devaluations occurred in 1993 and 1999. In addition, breaking with the pound meant that Ireland's export competitiveness with respect to its traditional market, the U.K., was also enhanced by appreciations of the pound in the 1980s (ibid.: 20).

Another important factor in Ireland's 1990s growth was its excess labour supply. Ireland had long suffered from high unemployment and the concomitant low participation and high emigration rates. In 1987, before the surge of foreign investment, Ireland was suffering from an 18.1 % unemployment rate (Balchin 1990: 115), roughly double that of the UK and almost 50 % higher than Wales (at 12.9 %). The employment rate in Ireland was only 51.1 % in 1992, rising to 65.1 % in 2000, while unemployment dropped from 15.4 to 4.3 %.

Thus, we have a chicken and egg situation with respect to the labour force. Rapidly growing trading partners and currency devaluations, combined with an ample supply of educated labour with stable wages, meant that Ireland was capable of expanding quickly with minimal inflationary pressures. As a platform into the European Union (Walsh 2003: 214), Ireland is a natural site for FDI from the US and Japan. This success attracted return migrants who extended the process.

Measuring the Miracle

GDP and employment data indicate the apparent extent of Ireland's success. However, neither variable is a precise measure of Ireland's development, social or economic.

GDP growth is only a reasonable measure of welfare improvement if GDP and GNP are moving together. In Canada, for instance, GDP tends to fluctuate between 2.5 and 5 % above GNP. However, when an economy's growth is accompanied by, or relies on, significant injections of FDI, the link between GDP and GNP is stretched, if not broken.

In Ireland, the gap between GDP and GNP has apparently increased, to between 12 and 16 % (Fortin 2001: 19; Romsa 2003: 157), "easily the largest gap in the OECD" (Walsh 2003: 225) and perhaps the largest differential of any industrial country (Honohan et al 2002: 43). Thus, much of the welfare gains of its economic growth accrued to foreign investors, not to its workers (Romsa 2003: 159). In this respect, GDP growth in Ireland is not an adequate measure of economic development.

The distinction between GDP and GNP becomes even more important when foreign investments are attracted by low tax rates on profits. The Irish tax advantages gave an incentive to use transfer pricing to inflate profits earned in Ireland by under-pricing imported inputs and over-pricing exports when dealing with sibling companies.

Honohan et al estimate that profits of foreign-owned firms account for 24 % of GDP in 2000 (2002: 44) – the same as the level of FDI in Ireland (Table 1). Transfer pricing to reduce global corporate taxation also leads to an over-estimate of value added in Ireland. Both productivity and economic growth are thus overstated and with them, the implied welfare gains to the Irish from economic growth. The growth in GDP or GDP per capita also over-states the productivity increase because a drop in the Irish birth rate means that the percentage of the population under 15 declined dramatically, from 33 to 21 % between 1970 and 2001 (Walsh 2003: 210). Honohan et al (2002: 1) conclude "there has been no miracle of productivity growth...and Ireland's ranking in terms of average living standards has not been quite as good as implied by the conventional statistics."

If GDP growth is over-stated by tax accounting, this will also be evident in labour's share of output. In Ireland, labour's share of GDP declined almost consistently from 47.9¹ to 38.9 % over the period 1992 to 2002, a drop of almost 20 %. In the UK, labour's share declined from 56.9 to 53.2 percent, 1992 to 1996, but returned to 56.3 % by 2002 (Eurostat data). Of course, there are other explanations for a falling labour share, such as the use of increasingly more capital-intensive production techniques (European Commission 1999: 29), or a "shift in sectoral composition to sectors with low labour shares" (Honohan et al 2002: 22).

While some of the economic changes are a welcome part of the development process, it remains true that the growth of the Irish GDP significantly over-estimates the welfare gains from its economic success, even before costs are factored in.

TABLE 1 FDI, Gross Investment, Per Capita Incomes, Ireland and the United Kingdom

	Ireland				Ireland/United Kingdom		United Kingdom			
	FDI/ GI %	GNP/ Pop	GI/ GDP %	FDI/ GDP %	FDI/ GDP	GNP/ Pop	FDI/ GI %	GNP/ Pop	GI/ GDP %	FDI/ GDP %
1974	2.43	--	27.81	0.68	0.3	--	9.75	--	22.89	2.23
1975	7.77	3260	22.37	1.74	1.23	0.60	7.32	5440	19.38	1.42
1976	7.82	3440	24.34	1.90	1.43	0.58	6.33	5910	21.1	1.34
1977	4.72	3910	26.76	1.26	0.72	0.61	8.45	6430	20.61	1.74
1978	9.60	4430	27.83	2.67	2.27	0.62	5.81	7120	20.25	1.18
1979	6.05	4870	31.65	1.92	1.24	0.62	7.57	7910	20.46	1.55
1980	5.15	5420	26.67	1.37	0.73	0.64	10.71	8450	17.63	1.89
1981	3.77	6050	27.19	1.03	0.89	0.66	7.21	9100	16.04	1.16
1982	4.41	6500	26.62	1.17	1.05	0.66	6.71	9860	16.68	1.12
1983	3.73	6700	22.84	0.85	0.75	0.63	6.45	10610	17.51	1.13
1984	2.88	7200	21.81	0.63	-7.81	0.64	-0.44	11250	18.50	-0.08
1985	4.19	7640	19.13	0.80	0.67	0.64	6.54	11990	18.39	1.2
1986	-0.82	7770	17.96	-0.15	-0.10	0.61	8.43	12710	18.19	1.53
1987	1.68	8370	16.35	0.27	0.12	0.61	12.16	13650	19.09	2.32
1988	1.58	9140	15.94	0.25	0.09	0.62	12.61	14810	21.48	2.71
1989	1.26	10110	17.98	0.23	0.06	0.65	16.97	15650	22.17	3.76
1990	6.31	11400	21.03	1.33	0.39	0.70	16.79	16330	20.16	3.39
1991	14.78	11980	19.22	2.84	1.78	0.72	9.31	16640	17.09	1.59
1992	16.54	12600	16.25	2.69	1.74	0.74	9.56	17040	16.15	1.54
1993	14.76	13200	15.11	2.23	1.30	0.74	10.87	17840	15.77	1.71
1994	9.49	14210	16.13	1.53	1.49	0.75	6.25	19020	16.46	1.03
1995	11.85	15820	18.36	2.18	1.14	0.79	11.30	19970	16.94	1.91
1996	18.00	17280	19.87	3.58	1.55	0.83	13.78	20850	16.71	2.30
1997	15.59	19360	21.96	3.42	1.22	0.88	16.45	21950	17.11	2.82
1998	53.10	21080	23.89	12.69	2.42	0.92	28.84	22820	18.19	5.25
1999	80.43	23450	24.20	19.46	3.17	0.99	34.63	23660	17.71	6.13
2000	97.50	25970	24.64	24.02	2.88	1.05	48.18	24840	17.31	8.34
2001	39.72	27730	23.54	9.35	2.15	1.07	25.94	25890	16.73	4.34
AVERAGE										
1974-79	6.40	--	26.79	1.71	1.20	0.61	7.54	--	20.78	1.57
1980s	2.78	--	21.25	0.59	-0.36	0.64	8.74	--	18.57	1.62
1990s	24.08	--	19.6	4.72	1.62	0.81	15.78	--	17.23	2.72

Note: FDI/GI = Net Foreign Direct Investment/Gross Investment; GNP/Pop = Gross National Income per Capita; FDI/GDP calculated as FDI/GI * GI/GNP

Source: World Bank, World Development Indicators, 2004 <http://devdata.worldbank.org/dataonline/>

1. Labour's share in 1986 was 52 % (Fortin 2001: 26); hence, its decline by 2002 was 25 %.

Counting the Cost

We must look beyond the benefits of growth (however measured) and assess its costs. Cross (1999: 385) notes that "[FDI] brings with it both benefits and costs to the home country, while MNEs' internal mechanisms and systems challenge the principles of pricing in free, or arm's length markets." These costs are primarily economic: the impact on workers and the workplace, the cost of attracting foreign investment, and the implications of foreign investment on the structure of the economy. There are also social and political impacts of dependence on foreign investment.

A financial cost of the pro-business foreign investment policies is the subsidies provided to business. These subsidies are the usual array: direct grants, under-priced land or services, wage subsidies, and tax concessions at the local and national levels. Probably the most important subsidy is the zero corporate profits tax, a "tax expenditure" which affects the government's budget through taxes not collected.

The tax expenditures were substantial by the 1980s. The government experienced "surging" taxes, partly because of levying a manufacturing profit tax of 10 % and partly because of increased exports following a currency devaluation (Honohan et al 2002: 22). If revenues soar when a tax concession is removed, it appears that significant tax revenues were forgone during the periods of zero or low corporate taxation.

Of course, tax expenditures cannot be measured accurately by the tax revenues raised after the concessions are removed. The foreign firms may be incremental, i.e., they would not come to Ireland without the tax concessions. Without the tax concessions in the early years to attract foreign firms, there would be no firms and no profits to tax later when the concessions are decreased. However, experience in Canada (Bradfield 1988: 177ff) and elsewhere (King et al 1993) suggests that many of the firms are not incremental and do represent a significant cost in concessions. The annual cost of these tax expenditures grows over time as the number of firms and the size of their activities increase.

Irish workers also paid a price. Corporatism expanded in 1976, collapsed in 1982, was restored in 1987, and broadened in several contracts extending to 2003 (Honohan et al 2002: 31). The promised personal tax reductions (and increased government services) finally materialized after the growth in tax revenues in 1987. Union power was weakened and foreign companies demanded union-free operations. Such "flexibility" in the labour market makes a country more attractive (Javorcik and Spatareanu 2005). Flexibility has costs – "... [US style flexibility] might not necessarily be the best objective... Social protection and social insurance have a role... the benefits from rapid job turnover are not always clear. Longer term attachments may be associated with greater rates of product improvement and process innovation, as knowledgeable workforces co-operate in the workplace where they are clearly stakeholders..." (European Parliament 2001: 63). Another indication of the cost to workers is the dramatic fall in labour's share of output, noted above.

Foreign investment may impose costs to the structure and functioning of the

economy. Branch plants usually produce existing, rather than new, products and are run by managers, not entrepreneurs or innovators. "Most multinationals are unable or unwilling to delegate full responsibility for a new product line to a subsidiary (due to global competition)..." (Rugman and Douglas 1986: 320). Some countries have branch plants with managerial autonomy, R&D capacity, and "extensive high quality localized supplier linkages" (European Commission 1998: 23) while others have "lower quality plants with heavily-truncated decision-making structures, often displaying low levels of material integration" (ibid). The Commission situates Ireland between these extremes (ibid., 24).

Walsh notes that "the highest corporate functions - managerial, financial, R & D, and marketing - are usually performed at home by the parent company. The average skill levels in the "high tech" sectors is significantly but not dramatically above the average for all Irish industries...[but] business expenditure on R&D as a proportion of GDP is below the EU average." (Walsh 2003: 224). The Irish tax concessions on manufacture-for-export limited possibilities for forward linkages (Johnson 1987: 303). The lack of backward linkages means that foreign investments fail to create efficient clusters.

Foreign investment may mean a broad loss of control. MNEs often deal with countries desperate for jobs and unfamiliar with the industries they are negotiating with. The companies extract concessions in competition, health, labour or environmental legislation. These changes affect political dynamics and the capacity of "civil society" to influence policy.

An implicit cost of Ireland's development strategy is its effect on regional disparities. Ireland neglected its regional development policies, letting the market decide where plants locate. As with most EU nations, there were increasing disparities within Ireland – the UK was one of only 3 exceptions - its regional disparities remained constant (Reiner 1999: 211). Ireland accepted the conventional wisdom that there is a trade-off between national and regional growth and opted for the former (European Commission 1998: 8-9; European Commission 1999: 147).

In summary, Ireland's "miracle" has a variety of mundane but important explanations such as labour supply, currency devaluation, and massive grants from the EU. Many of the benefits of Ireland's growth accrued outside of Ireland. Moreover, there have been costs to Ireland's development approach and the net effect has not been determined. How does Ireland compare with the Welsh experience?

Wales - Re-surfacing

The economic development of Wales is dramatically different from Ireland's. In the last century, Wales was hobbled by its 19th century success in mining, iron, and steel which generated high wages and immigration to Wales. Wales had to re-invent itself as these industries declined and people adjusted to a new economic environment. Restructuring is at least as difficult, economically and socially, as a transition from a primary-based economy, as experienced by Ireland.

Wales' industrial economy was male-dominated, with a low participation rate, especially for women. Restructuring involved unemployment for men, or jobs at much lower wages (Scott Cato 2000: 80). Coal mining employment fell from 120,000 to 40,000 from 1945 to 1970 (Humphrys 1972: 65), despite a rebound in the 1950s (Lee 1971: 73). At the same time, women moved into paid work and their wages rose more quickly than male wages (Brooksbank 2000: 256; Brown 1972: 206-222). Thus economic adjustments were accompanied by significant social re-arrangements.

While restructuring was painful, the Welsh economy must be kept in perspective. In 1961, it was still relatively prosperous as its GDP/capita was 85 % of the UK average (Brown 1972: 62). The wage level in Wales was slightly above that of the UK – the difference in GDP/capita reflects its lower participation rates (ibid.: 57, 235; Prest 1968: 193) and much lower levels of self-employment and property incomes, 52.6 and 60.8 % of the UK average, respectively (Nevin et al 1966: 2). Its traditional economy forged east/ west links and there were substantial regional disparities in Wales on a north/ south (Welsh/English) basis (ibid.: 32). Thus, the concern for Welsh development is about internal as well as national disparities.

Caught Between the Inevitable and the Ideological

Wales faced contradictory forces and experienced mixed results. From 1921 to 1961, Wales was the only region of the UK not experiencing growth in the banking and insurance sectors (Lee 1971: 72). The UK's membership in the European Community did mean that regions of Wales were eligible for subsidies in the Community's programs. Between 1963 and 1975, government offices were decentralized and Wales benefited disproportionately (Henley and Thomas 2001: 233). In the 1980s, the Thatcher government cut traditional regional development programs. Nonetheless, Wales experienced periods of growth and strong inflows of foreign investment. As they won more political power, the Welsh questioned conventional wisdom, including the net benefits of FDI.

Joining the EC in 1973 did not bring the windfall subsidies obtained by Ireland. "Despite being one of the 'less prosperous' member states, the UK became the second-largest contributor after Germany" (Laffan and Shackleton 2000: 218). Despite its eligibility for EU programs, the UK was a net contributor. Wallace (2000: 47) notes that "...EU structural funds...have been used by the UK to cover part of its deficit under the EU budget, and by British local authorities later to compensate for reduced central industrial funding..." Whereas 100 % of the population of Ireland was covered by European regional policy objectives, this was true of only part of Wales (Reiner 1999: 226). The cost of EU membership affected the ability or willingness of the central government to pursue regional policies.

The Thatcher government was particularly hard on lagging regions. Reliance on market solutions meant cuts to regional development programs, even as the 1979 oil crisis created new economic difficulties. In Wales, manufacturing

employment declined by 108,000, 1979-1987, and Wales was the only region to also lose service jobs (Balchin 1990: 106). Thatcher's tight monetary policy and cuts to government expenditures exacerbated conditions in all lagging regions, driving their unemployment rates to more than double those in the prosperous south of England (ibid.: 4).

Under Thatcher, the "defence" or military equipment industry did receive increased funds, much of it for R&D (European Commission 1998: 51), but it was concentrated in the south. This was consistent with Thatcher's shift to urban policy to deal with poverty concentrated in the wealthy south east, particularly London (ibid.: 101). Thus, "...the political imperatives arising from growing unrest in areas of extreme poverty and deprivation have seen urban policy expenditures rise to some four times that of the main British regional incentives..." (European Commission 1998: X). In Wales in 1993-94, 81 MECU were spent under the Urban Programme and Cardiff Bay Development, but only 70 MECU for rural support in 1992-93. The Programme for the Valleys, the former coal and steel areas, received 442 MECU in 1993-94 (ibid.: 30-33).

Wales managed, nonetheless, to have periods of more rapid growth than the UK as a whole. Nevin et al (1966: 2) attribute Wales' relative success in the 1948-1964 period to its high rate of capital investment, much of it through FDI. The Thatcher government relied on foreign investment (Scott Cato 2000: 69). Despite declining government support for regional incentives, "Wales was the most successful UK region in terms of attracting inward investment; it received 14 % of the UK total between 1979 and 1991, and approximately 20 % per year from 1988 onwards..." (ibid.: 70). Thomas feels the foreign presence has "...been enabled and supported by regional funding at national and European levels" (1996: 225) but worries that Wales may be less stable for its dependence on foreign investment (ibid.: 226).

Indeed, without the zero corporate tax rate adopted in Ireland, the UK was able to attract substantial amounts of FDI relative to Ireland. Table 1 shows that, in the 1970s, the ratio of Net FDI to Gross Investment for Ireland was higher than that for the UK half the time, but the average from 1974 through 1979 was higher for the UK, 7.54 compared to 6.4 %. In the 1980s, the UK ratio was dramatically higher in all years but 1984. It has only been since 1991 – with increased corporate tax rates – that Ireland dominates the UK with respect to the amount of investment activity financed through FDI, especially since 1998 when the ratio of FDI/Gross Investment jumped to 53 % in Ireland compared to 29 % for the UK.

It is significant that the higher level of FDI in the UK – and in Wales in particular – during the 1970s and 1980s holds in spite of the consistently higher level of Gross Investment relative to GDP in Ireland for the first twelve years of membership in the European Community. This investment activity in Ireland was apparently financed more by the massive subsidies received from the EC than by FDI. It is not until the late 1990s in Ireland that the value of Foreign Direct Investment exceeds EU subsidies – FDI/GDP did not rise above 3.6 % until 1998 (Table 1). As noted previously, some of this jump reflects the re-investment of profits. In addition, this timing confirms that the surge in foreign investment followed growth in Ireland, rather than causing it. FDI is both too little and too late

to cause the growth spurt in Ireland.

Apparently the success in attracting FDI to Wales and the UK required fewer non-financial concessions as well. Because of concerns about industrial relations "the first Japanese companies to arrive made clear their requirements in terms of worker organization: single-union agreements in the UK were pioneered in Wales..." (Scott Cato 2000: 78). While a significant change in Welsh labour relations, this is a much less restrictive condition than the no-unions demand acceded to in Ireland.

The literature on Wales is ambivalent about the benefits of FDI and quite explicit about the costs. "The role of overseas manufacturing investment has recently been given pride of place...[in the] dominant interpretation of Wales's 'successful transition'...These claims are not without some (possibly dubious) foundations" (Phelps and MacKinnon 2000: 48). Among the concerns and costs, Phelps and MacKinnon cite "the stability and quality of employment offered... plants' exposure to processes of corporate restructuring and rationalisation, ...industrial enclaves...poorly integrated with local economies" (ibid.: 47). In addition, they point to "...truncation' (the lack of key decision-making and research and development functions)...as well as more recent concerns with repeat investment and the skills requirements of overseas investors" (ibid.: 55). The majority of foreign direct investments are acquisitions and mergers rather than greenfield plants - 80 % world-wide in 2001 (Guillemette and Mintz 2004: 4). "While acquisition can offer developmental benefits for erstwhile growth-constrained indigenous enterprise...it is usually associated with corporate-wide rationalization, which more often than not involves functional truncation and the general diminution of operations" (op. cit.).

Scott Cato cites evidence that "...foreign firms purchased only 12 % by value of their components in Wales... Toyota UK...claims 60 % local content for their product, but this is qualified with the definition of 'local' as meaning 'European'; in fact only 8 % of Toyota's components are supplied by Welsh-based firms..." (2000: 76). She also notes that Wales lost "...a significant number of jobs in its car components and its iron and steel-making sectors as a result of employment substitution to other regions where inward investors had located" (ibid.: 77). Scott Cato feels that these impacts are not specific to Wales - "...Ireland may suffer at least as many negative spin-offs from inward investment as Wales has done, especially in terms of deskilling of the labour force and the limitation of technological spillovers..." (84).

Another criticism of foreign investment has been its concentration - spatial and sectoral. The defence or military hardware industry received large subsidies in the 1980s and tended to locate near London. Given that almost half of the UK's R&D support was in this industry (European Commission 1998: 65), a disproportionate share of innovations occurred in the south east (Armstrong and Taylor 1993: 263). However, the amount of technology transfer is particularly weak in this industry (op. cit.: 64).

The spatial concentration of foreign investment in Wales is along the M4 corridor in the south (Thomas 1996: 227) and the A55 in the north because of their access to prosperous regions of England (Scott Cato 2000: 75). Regional dispari-

ties shifted to an east/west divide - Balchin (1990: 43) notes that unemployment along the West coast was above 15 % and above 10 % in the south, in 1988.

The Welsh Development Agency indicates the importance of making decisions at the level of those affected by them (Balchin 1990: 172). The WDA gradually strengthened, particularly after the Welsh Office was established in 1979, and initiated its own development approach. The WDA "...committed to making indigenous enterprise the principal platform for the regeneration of the Welsh economy...[It] invested funds in the reclamation of derelict land, developed several industrial parks...in addition to financing the formation and growth of firms" (ibid.: 174). It focussed on local small and medium enterprises, apparently with success. "By 1987, the WDA had built up an investment portfolio of £35 million in 400 companies and was the main source of venture capital in the principality..." (ibid.). It also tried to increase the local linkages of foreign branch plants, but with limited success (Phelps and MacKinnon 2000: 51, 62), possibly because of the crowding out of local firms (Scott Cato 2000: 78) or corporate rationalizations.

Summary and Conclusions

What are the lessons to be learned from this comparison of Ireland and Wales? If Ireland is a tiger, it is a paper tiger - because of its reliance on foreign investment, its GDP growth has not translated into comparable welfare improvements for the people of Ireland.

The explanations for Ireland's growth go beyond being corporate-friendly to the policy tools of a national government, e.g., currency depreciation, plus the infusion of massive European Community subsidies. Its free university education gave it a well-educated labour force, and its low employment rate provided ample capacity for growth. Its rapid growth rode on the success of its major trading partners in the 1990s.

The timing of the tax concessions and the foreign investment contradict the argument that low taxes attracted FDI and FDI stimulated growth. Significant growth in Ireland occurred after corporate profit taxes were raised. Moreover, the UK and Wales show that foreign investment can be attracted without the level of enticements offered by Ireland. They also show that foreign investment is not sufficient for growth.

The Irish experience suggests that foreign investment is not necessary for growth. Its subsidies from the European Community outweighed foreign direct investment until the very late 1990s. Its growth spurt attracted the large inflows of foreign investment. FDI was not catalytic; it was opportunistic.

The comparison with Wales is useful for breaking the claimed link between FDI and growth, but also for assessing the costs of foreign investment. Instead of catering to foreign investment, it may be more effective in the long run, in terms of both costs and results, to stimulate the local conditions for growth, for instance, finding venture capital for local firms rather than having them bought up by the multi-national enterprises.

There may also be a lesson on regional disparities. Ireland chose to focus on aggregate growth, not its regional disparities which actually increased. While the Thatcher government reduced the focus on regional development, Welsh nationalism had the effect of putting more effort into local small and medium enterprises. Wales may yet show that there is not an inevitable trade-off between equity and efficiency.

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