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## 1. Historical background of Irish Industrial Development 1922 to 1958

An understanding of the policies adopted in Ireland for the encouragement of export-oriented industries which may be said to have started in the late 1950's, requires a knowledge of the background to the early evolution of industrialisation from the foundation of the State in 1921. Prior to this date Ireland was a part of Great Britain and its economy was marked by its position as a supplier of agricultural products to the British market effectively in exchange for the country's need for manufactured goods. There was thus a very low level of industry and such industry as did exist was mainly in the traditional areas of textiles, food etc. In addition, the high natural growth rate of the population and the low level of job opportunity at home had traditionally lead to a high level of forced emigration by people of working age.

The attainment by Ireland of its independence was preceded by a number of years of civil strife which indeed continued during the first years of independence. The emphasis therefore was on the evolution of a stable democratic government system and the undertaking of the task of physical re-construction. In its time this may be taken as being more difficult than it would be today since Ireland did not have the benefit of such international institutions as The World Bank, United Nations, and UNIDO. There was little governmental spare capacity to devote to the problems of industry and it was not until the 1930's that a start was made on building up an industrial sector within the country.

This of course was a time of world depression where other nations were intent on protecting their own industry by widespread systems of duties and quotas on imports. The policies adopted by Ireland therefore, were based on import substitution and the encouragement of the formation of industrial enterprises, not only to serve the home market, but also to be primarily within the control of Irish nationals. This was done by establishing high levels of import duties on imported manufactures which, within narrow classifications, protected those products which were being made in Irish factories. Legislation was also introduced to control the establishment of manufacturing enterprise by licence, the major condition of which was that a major shareholding in such manufacture should be in the hands of Irish people.

This policy was followed right up to the end of the 1950's by which stage 9% of the civilian work force was employed in industry which was serving much of the domestic market requirements. However, the economy was stagnating and as against a natural increase in the population of 30,000 per annum, there was forced emigration at the rate of 40,000 per annum.

## 2. Policy changes in 1958

That year brought about a complete re-appraisal of the progress of industrialisation in Ireland. It represented also the time at which, however simplistically, the programming for economic expansion commenced.

It was realised that industrial development based on a small home market, (a population less than 3 million) was very limited and that the policies adopted till then resulted in industry exhibiting both bad economies of scale and a lack of specialisation deriving from the need for Irish factories to serve too diverse a range of products which for a small market resulted in short and uneconomical production runs. The productivity of industry and the standard of management was low by European standards because of the lack of challenge offered by a highly protected market and the introduction of new ideas both in relation to products and processes was deterred by this latter factor and also by the control of manufacture which inhibited the importing of new concepts which might be expected to arise through the importation of foreign entrepreneurs.

The first programme for economic expansion introduced in 1958 outlined a need to increase exports in the manufacturing sector and brought to the nation's attention the fact that free trade internationally was coming so that a continued isolationism on the part of Ireland would become an anachronism. The programme, therefore, gave direction to developments which already were taking place and in particular, legislation was introduced to give power to the relevant government agencies to seek actively direct foreign investment in Ireland in export-oriented industry both through promotion and the application of a wide range of legislative and fiscal measures which were progressively upgraded in the following ten years.

## 3. Major Institutional Forms

Ireland at the present day is marked by a wide range of agencies financed from the National Exchequer which have different roles to play in relation to industrial development. The primary agency is the Industrial Development Authority which under its enabling legislation, is charged with national responsibility for industrial development. The time scale on which it and the other major agencies were established may best be illustrated as follows :-

### 1933 - Industrial Credit Company

This is a government financed merchant bank which operates on commercial lines but until very recently was virtually the only merchant bank operating in the country and which even now undertakes lending particularly to smaller enterprises and for longer terms than the normal merchant banks will entertain.

1950 - Industrial Development Authority

At this stage its role was primarily advisory, that is, to advise government on industrial development generally and to help businessmen who had the intention of establishing industry.

1952 - Irish Export Board

This was not conceived as a trading corporation but purely as a body to advise Irish industry on the problems of export and the product demands of export markets. It still operates in this way but the high growth in exports, particularly non-consumer exports, emanating from the foreign controlled sector of industry now calls for resources directed to a different sort of service from that required by smaller home manufacturers.

1952 - Industrial Grants Board

Originally set up to process the payment of Capital Grants awarded on the advice of the Industrial Development Authority. This Board has now been merged with the Industrial Development Authority.

1958 - Shannon Free Airport Development Company

Established at Shannon Airport to create jobs to replace those expected to be lost by the loss of the airport's position as a necessary fuelling stop for flights from the North American Continent to Europe.

1970 - Industrial Development Authority - New Structure

Under new legislation the Industrial Development Authority was changed from being part of the civil service system to being an independent agency financed by government. It operates under a part-time outside Board with members drawn primarily from the commercial sector.

4. Legislative and Fiscal Measures

A wide range of measures to induce investment has been developed in Ireland. These fall naturally into two groups - those which are primarily concerned with the encouragement of export-oriented industries whether foreign owned or Irish owned and those directed at traditional Irish industry to assist their modernisation and expansion. The principal measures are shown on Table 1 and of these numbers 5, 6 and 10 are directed at existing Irish industry, while the rest are more concerned with new export-oriented industry. Research and Development Grants may also be given to the export-oriented sector.

TABLE 1

LEGISLATIVE AND FISCAL MEASURES

1. EXPORT PROFITS TAX RELIEF

| | | |
|---|---|---|
| 1956 | 50% RELIEF 5 YEARS | |
| 1957 | 100% RELIEF 5 YEARS | |
| 1958 | 100% RELIEF 10 YEARS | 1969 Limit |
| 1960 | DITTO | 1975 Limit |
| 1963 | 100% 10 YEARS + 5 YEARS REDUCING | 1990 Limit |
| 1968 | 100% 15 YEARS + 5 YEARS REDUCING | 1990 Limit |

$$\text{EXPORT PROFITS} = \text{TOTAL PROFIT} \times \frac{\text{REVENUE FROM EXPORT SALES}}{\text{TOTAL REVENUE}}$$

2. GUARANTEE OF REPATRIATION OF PROFIT AND CAPITAL

3. DOUBLE TAXATION AGREEMENTS

4. CAPITAL GRANTS FOR NEW INDUSTRY

| | |
|---|---|
| ORIGINALLY | $66\frac{2}{3}$% and 50% |
| NOW | 50% and 35% |

5. GRANTS FOR SMALL INDUSTRY

| | |
|---|---|
| NOW | 60% and 45% |

6. GRANTS FOR IRISH INDUSTRY

ADAPTATION/MODERNISATION 25% and 35%

7. INTEREST SUBSIDY

8. EQUITY PARTICIPATION

9. TRAINING GRANTS

10. RESEARCH AND DEVELOPMENT GRANTS

11. INDUSTRIAL ESTATES/ADVANCE FACTORIES (REDUCED RENTS)

Of the measures listed in table 1, export profits tax relief, the guaranteed repatriation of profit on capital and the administration of double taxation agreements are not negotiable items. They are written in to the law and thus, coupled with the absence of any legislation as already outlined restricting the establishment of industry, are available to any manufacturer who can take advantage of them. All the other items on the other hand are negotiable and I will outline later how the criteria of such negotiation are established.

One feature of the incentives system in Ireland is that there exists legislatively two levels of grant. The higher level applies to enterprises in the western half of the country which is less developed than the rest of the country. As we will see later on, administratively the levels of grant can be applied more finely to take account of not only social factors but also the parameters of the investment itself.

## 5. Results in the Decade 1960-1970

The active policies of promoting export-oriented industries in the first ten years of operation were very successful. Five hundred new industries involving an investment of £130 million were established during the decade and contributed considerably to the growth rate of industry, to industrial exports and to a rise in industrial employment. During this period industry rose at an annual rate of 7% and industrial exports at 18% per annum from £35 million in 1960 to £212 million in 1970. In fact, in the latter year for the first time ever industrial manufactures represented the majority of all exports. It is probably fair to point out that much of these manufactured exports resulted in large imports of intermediate products because of a lack of an Irish capital goods industry, few natural resources and little linkage between the exporting industries and existing industry within the country.

The new industries had an important effect on employment. Of the civilian workforce, where only 9% were employed in industry in 1958, by the end of the sixties employment in industry was 19%. One result of this was the reduction of the emigration rate from 40,000 per annum to 15,000.

The industrial structure which emerged from the rapid development of export-oriented industries is quite interesting. Although decisions were taken during the 1960's which had the result of reducing Irish tariff barriers against the rest of the world, the rates of duty were still quite high. Thus for example in 1965 a free trade agreement was signed with Britain under which immediately Irish manufactures were given free access to the British market while tariffs against British manufactures were progressively to be reduced over a ten year period. Since some two-thirds of Ireland's inward and outward trade is with Britain this had an important effect in that for export industry there was a ready access to a large and sophisticated market while leaving traditional industry to operate in a relatively protected environment during a transition period.

The resulting dual structure shows a small but growing segment of industry which operated as if in a free trade environment and a larger segment based on existing traditional industry having the characteristics expected from industrial sectors in a protected economy. The level of sophistication, the efficiency and the market orientation of the two parts of industry were quite distinct.

## 6. Dependence on Foreign Investment

To develop a set of export-oriented industries, Ireland has depended on technology transfer through direct foreign investment. A heavy dependence on this source of growth for industry is naturally one which gives rise to some concern. In one regard however we differ from other countries which frequently are more worried about foreign investment because of the degree to which it can dominate home markets. In Ireland this does not arise because all industry established with foreign ownership in Ireland over the last decade or so exports all its production and thus has little effect on the domestic market.

The question of foreign investment therefore has to be viewed at two levels - the short term and the long term. In the short term Ireland's greatest need is for continued economic growth - which must primarily come from the industrial sector - and the creation of job opportunities. This must necessarily be based on foreign enterprise because of the low technological base of existing Irish industry, the lack of native technological capability to tap in to the mainstreams of modern industry at a fast enough rate and the effects of past economic policies which has inhibited the development of the necessary entrepreneurial spirit in Irish industry. It is accepted that such an approach cannot continue indefinitely in the interests of autonomous growth of the economy.

In the long term, therefore, other parallel policies must be implemented to ensure that increments of growth can be developed from within the economy to avoid, on the one hand, what has been called a "capital re-colonisation" and, on the other, a continued need to seek out and promote abroad the source of all new growth.

There will be a need for a greater dependence on Irish people to contribute to growth. Traditional industry will require considerable restructure to give units of production which are more suited to a free trade environment and are of a size, specialization and capability to be competitive internationally. An active science policy is being developed to encourage more innovation and to ensure that scientific activity in the country is more related to economic needs and is capable of more ready transfer into the industrial sector.

It is the Irish view that even within foreign owned industry it is possible in the procedures of selection to ensure future growth within the country. In the extreme, foreign investment which is purely branch plant operation is not likely to show this growth and in our selection now we are conscious of the need to look for those investment projects in which the Irish unit will be given a measure of autonomy so that its growth is not inhibited by undue control from the parent. We take the view that certain parameters of an investment project can lead to "organic" investment. By this we mean that certain characteristics apart from autonomy such as the nature of production, the inter-relationship between the production unit and its markets etc., can ensure a high probability of autonomous growth.

## 7. 1970 - A Watershed

The promotion of Ireland as an investment base when first undertaken at the start of the sixties was a difficult task. In the eyes of potential investors Ireland was merely an agricultural country with no tradition of industry. Therefore, the major emphasis in promotion had to be on persuading investors that it was possible to establish industry in Ireland and to operate it successfully. It was not feasible to be selective except in the sense of ensuring that investments which were assisted with state funds had a reasonable probability of being viable. Thus much of the investment, particularly of the early sixties, was in mature industries of the sort which normally locates in a centre which offers the advantages of low-cost production.

By 1970 with increasing foreign industry, representing the fact that Irish environment was accepted as a suitable one for investment, Ireland could be said to be in a better bargaining position towards foreign investors and indeed in a position where it was possible to apply a more sophisticated criteria to investment projects than merely that of probable viability. This made possible new policies supported also by the fact that Ireland's membership of the European Economic Community seemed a likelihood and therefore that access to wider markets was open to investors - who since 1965 had this access to the British market but now would have it to a market five times the size. And such policies were indeed necessary because increasing investment activity, a tendency towards greater capital intensity in investment projects and the consequent pressure on capital resources deriving from the relatively high level of capital grants awarded made a new appraisal necessary.

Fundamental studies were undertaken to try to determine the parameters of investment projects which in the Irish situation of an open economy marked by the need to import virtually all intermediates, a tax-free regime on exports, and the free repatriation of capital and profits could lead to the maximum social/economic benefit for Ireland. Basically this was an effort to apply the principles of cost-benefit analysis in a general way to investment projects as a group and to assess those factors which contribute to what has earlier been described as an organic nature in an investment project.

The criteria of selectivity were derived and applied on a number of different levels

- to the characteristics of the product to be manufactured
- to the nature of the investor and the structure of his project
- to the spatial distribution of projects.

Within the confines of this lecture it is not possible to discuss the criteria of selection in detail. Suffice to say that for example under the question of product, quantitive criteria were established in relation to the following :

- growth nature of the product
- its probable life-cycle
- the skilled content of manufacture
- the implied capital intensity
- the male/female labour ratio
- exportable nature

## 8. Application of Selectivity

The traditional approach to the promotion of direct foreign investment is through the medium of advertising in the press and trade journals, overseas representatives and liaison with groups such as banks, chambers of commerce etc. The objective of this is to generate a pool of investment opportunities with the promoters of which negotiation can then take place. Once criteria of selectivity are established a new dimension is added to the search for projects, the selection of products and investor types and the negotiation of the package of incentives which will be offered to any given project.

Search means that one studies industrial sectors to determine a list of products which are best likely to benefit the promoting country. This then leads first of all to an improvement in the quality of general promotion by enabling it to be directed towards those prospects which are most attractive and then to the second stage of selection.

Once one has a list of products one can now set about selecting companies which make these products and for which it is possible to identify an intention to invest overseas. A presentation to the prime decision-maker in these companies is made on a personal basis, that is, information is given to him which is relevant to his company and his product and will generally include at least a crude feasibility exercise for an investment in Ireland. This will not, of itself, ensure that a project is put forward for negotiation but has the major advantage that, in relation to the considerable effort which has to be put into such presentations, the probability of generating a serious interest in Ireland as a location is high. This is important since, for many companies, the very wide range of location options open to them means that only a few such locations can be selected and this is often done on quite irrational grounds. The personal presentation affords the opportunity of putting forward rational grounds for a given location which at least encourages a further consideration.

The final stage of activity which is affected by the derivation of selectivity criteria is that of negotiation. In the simplest case, the criteria will lead to saying 'no' to some investment proposals because it has been shown that such investments are not in the best national interest. More importantly, however, the application of the cost-benefit considerations means that one can decide what the maximum cost of incentive can be and thus decide how to deploy incentive resources on a differential basis between investment projects of different characteristics. The simplest form of this is in the attempt to get a regional dispersion of industry where the social benefit of particular locations can be given a weight in determining the nature of the offer made by the host country.

## 9. Conclusion

I have attempted to indicate the historical background to industrial development in Ireland and to indicate the way in which different policies and institutional forms have arisen throughout the process. Very many of the considerations put forward are specific to Ireland but the lesson which other countries may possibly learn from the Irish case is that in the promotion of export-oriented industries, one may at the initial stages have to accept investment projects somewhat uncritically. There comes, however, a time when it is both right and necessary that a more positive approach is adopted and a degree of selectivity introduced into all stages of the promotion process. The criteria on which this selectivity are based will vary depending on the economic circumstance of different countries but all have this in common that the national objective be stated in some form and this be translated into statements of how the attainment of a national objective is affected by the different parameters of investments.

I have not so far touched on the question of competition between locations. And in considering the Irish case it is important to realise that while the range of legislative and fiscal measures in Ireland seem generous, these are necessary for competitiveness. Ireland is not a country with a strong industrial tradition and yet it competes for investment in Europe with countries which not only have this tradition but also themselves offer quite generous incentives of one kind or another. For example, until relatively recently, the development areas of the United Kingdom - which is of course a well-developed economy - offered to investors non-repayable capital grants at a level of 45% while at the same time having available to such investment a market of close on 50 million people.

There are three parties to the investment process - the host country, the investor and competitor countries. If one is to be successful in the attraction of foreign investment the interests of all three parties must be integrated into the process. Traditionally it is probably fair to say that countries tended to look on the needs of the investor primarily and to consider their own needs only broadly. The policies adopted in Ireland have been to look more closely at the country's own needs and the benefits which will accrue to it and to be prepared to accept in the extreme that an investment be lost rather than too high a price be paid for it. We are however, conscious of the competitive position, though this is less easy to determine precisely, since an investment decision is a mix of considerations, some financial, and others concerned with intangible factors such as political and racial stability, worker attitudes, language etc. It is important however, to know how one's country is viewed by investors as compared to their view of other locations and to take steps to promote on a basis which takes account of all these factors.