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How Foreign Firms Transformed Ireland’s Domestic Economy

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Today, Ireland is host to 1,033 multinational corporations. They directly employ 152,785 and account for 70 per cent or €122.5bn of exports. It’s a story that has its roots in the 1940s.

When protectionism, which had been in place since 1932, reached its limits, the first inter-party government of 1948- 51 opted for a more proactive industrial development policy and established a new organisation, the Industrial Development Authority (IDA), in 1949.The IDA quickly decided that export-led industrialisation was the only way to develop the economy.

By 1956, the IDA’s efforts were bolstered by the introduction of capital and training grants, and 50 per cent tax relief for five years on exports. This tax that morphed into the corporate tax rate we have today.

Duty-free access to the UK market was possible from 1965, when the Anglo-Irish Free Trade Agreement was signed, and the 1970s saw a further boost, when Ireland entered the European Economic Community. In the early 1980s, the Telesis review of industrial policy concluded that industrial development was over-reliant on FDI, while indigenous industry languished. This analysis found subsequent expression in 1994, with the recreation of the IDA as three autonomous agencies: Forfás, the umbrella agency, focusing on policy; Forbairt (now Enterprise Ireland) charged with promoting indigenous industry; and IDA Ireland, responsible for FDI.

Early FDI

Until this time, British companies had been the main source of foreign investment, but this period saw significant investment from the then West Germany and the US.

In the 1960s foreign companies set up 350 new enterprises in Ireland: British, American, German and Dutch. Among the early arrivals – and still here today – were Denmark’s Leo Laboratories (1959), Warner-Lambert (1960), General Electric (1963) and Pfizer (1969). In the 1960s, FDI delivered 70 per cent of new employment and 90 per cent of increased exports in transportable goods.

As time went on, the IDA began to identify priority industrial sectors and target winning companies before they became more widely known and attractive to other development agencies. Priority sectors included electronics, pharmaceuticals and medical technologies.

Projects considered particularly worthy came from companies that were leaders in their field, were high-tech, highly skilled and offered long-term growth potential, used the country’s natural resources, presented spin-off prospects to existing firms, provided jobs quickly, located in less developed parts of the country and helped sell Ireland as an FDI location.

By the early 1980s, many of the world’s leading electronics companies had established basic assembly and test facilities, including Digital Equipment Corporation (1971), Measurex (1973), Northern Telecom (1973), Ericsson (1974), Data 100 (1975), NEC (1975), Nixdorf Computer (1977), Westinghouse Electric Corporation (1978), Amdahl (1979), Wang (1979), Apple (1980) and Fujitsu (1980).

The pharmaceutical companies Smith Kline & French (1974), Merck, Sharp & Dohme (1976), Allergan (1977) and Eli Lilly (1981) also arrived. The medical devices sector saw the arrival of Baxter Travenol (1971), Abbott Laboratories (1974), and Bausch & Lomb (1980), among others.

Mid-1980s: building clusters

In the mid-1980s, the strategy moved from targeting winning companies to specialisation in key high-tech sectors. Along came Lotus (1984), Microsoft (1985), Intel (1989), Motorola (1989), Dell (1990), HP (1995), IBM (1996), Oracle (1996), Xerox (1998) and Cisco (2007).

International financial services emerged as a new sector in this period, covering banking (Citi, 1996; Deutsche Bank, 1991; HSBC, 2000), funds and investment management (State Street, 1996), payments (Mastercard, 2009; PayPal, 2003) and more.

The 2000s saw the arrival of digital and games companies Google (2003), Yahoo (2003), eBay (2004), Amazon (2005), Facebook (2008), Twitter (2011), LinkedIn (2010), Electronic Arts (2010) and Zynga (2010).

The FDI sector began with assembly and test, developed into localisation, packaging and printing, moving to higher value manufacturing, low-end services and call centres in the 1990s, and advanced manufacturing, high-end services and supply-chain optimisation in the 2000s.

The industrial strategy has evolved with it, from simply attracting new companies to working with them to transform their operations and secure their sustainability. IBM, for example, started out in manufacturing, which has since ceased, and now employs 3,500 people in research and development, software development and global supply chain.

Other companies, of course, have ceased operations altogether. Among them are Faber Castell (1954-90, Fermoy, 23 jobs), Krups (1964-98, Limerick, 500 jobs), Seagate (1995-98, Clonmel, 1,400 jobs), and Big Fish Games (2009-13, Cork, 90 jobs).

As of 2013, multinationals are responsible for direct and indirect employment of 260,000, or 15 per cent of the workforce, and spend €19bn in the Irish economy, including €7bn on payroll and €2.7bn in corporation tax. We also have home-grown multinationals – including CRH, DCC, Glanbia, Glen Dimplex, Greencore, Kerry Group, Kingspan, NTR, and Smurfit Kappa – employing 249,000 people. But that’s for another day.

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