Celtic tiger essay

EXECUTIVE SUMMARY Ireland has always been considered a land of mystical and often magical happenings. This is also proved by Ireland's success over the past two decades. This report has analysed how Ireland has been successful in attracting FDI into the country. The main reason for this has been the various policies adopted and also how the creation of IDA has been a boost to the country's economy. The analysis further moves into the benefits of attracting FDI and also how the location of Ireland and has help built Ireland into what it is today. This analysis leads us into the notion of Ireland as " THE CELTIC TIGER", how this notion has come through and what initiatives have the government taken to living to this notion.

The notion of Ireland as " The Celtic Tiger" is used to refer to the time period (The Celtic Tiger years) and also the country. This notion was given to signify the rapid economic growth. This report then analyses the challenges which might be faced by the government, like loss of competitiveness, promoting indigenous industry etc. And then we move into analysing the position of Ireland in the European Union.

Being a part of the European Union was one of the major turning points in Ireland's economic growth. Finally we conclude by saying 1) that Ireland's ability to attract foreign direct investment (FDI) was one of the defining features of the country's economic success over the 1990s 2) timely tax breaks have created various employment opportunities 3) But the economy has overlooked or neglected some of the factors. So from the conclusion we recommend that Ireland should continuously improve the infrastructure, build up a favourable environment for entrepreneurship, increase the mobility of students and more importantly improve the R&D capabilities apart from others. This will help Ireland cope up with any future challenges.

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INTRODUCTIONLeprechauns, sentimental poets, the little people, Guinness, empty countryside, Five Nations Rugby and traffic free lanes, where you are more likely to encounter a herd of cows rather than a queue of cars.

Welcome to the Emerald Island or the country we all know as IRELAND. It is a country steeped in myths and legends that live in harmony besides the today's modern day world. Most travellers describe Ireland as a stunning land with unsurpassed beauty and one which possesses a history that goes so far only the fairy folk remember it beginnings. These cliched images of Ireland sell Ireland well short of its reality.

In just over a decade Ireland has emerged from one the poorest countries in the Western Europe to one of the most successful (Sean, 2006). A number of key factors underpin this key economic growth. These factors include reducing the taxes, government programs to attract foreign direct investments (FDI) and the financial support from the European Union. As a result of continuous efforts over many years, Ireland now has second highest gross domestic product (GDP) per capita within the European Union one third than EU-25 average and has achieved exceptional growth (Sean, 2006). All these changes have taken the Irish society to a new level. This case study analyses the Ireland's success in attracting foreign direct investment (FDI), this was one the major reasons for Ireland's success.

This analysis will lead us into analysing the notion of Ireland as a " Celtic Tiger" and finally considering the Ireland's position in the European Union. CASE STUDY ANALYSIS HISTORY From 1800 to 1921, Ireland was a central part of the United Kingdom. During the period 1846-48, the Irish economy was overshadowed by a severe economic depression. Mass famine produced the first wave of Irish emigration to the United States.

The turn of the century witnessed a rush of interest in nationalism, including the founding of Sinn Fein (meaning " We Ourselves") political party (Hill, 2007). The fight to free Ireland really began to heat up in 1916 with the Easter Rising in which volunteers launched an insurrection whose aim was to end British rule and to form Irish Republic. British attempts to smash such uprisings ignited the Anglo-Irish War of 1919-1921. After much revolt the Ireland got independence in the year 1921 and the government declared Ireland republic in 1948 (Hill, 2007). From the 1950s Irelands economic recovery began and things like granting of tax-free status to export oriented firms and the signing of the Anglo-Irish trade agreement led to rapid growth in foreign investment and becoming of industrialized nation (Hill, 2007). After a decade of stagnation in the 1980s, the southern Irish economy became hailed as an outstanding economic success of the 1990s (O'Hearn, 2000).

Ireland has become a flexible and powerful economy in a matter of decades, spruced a work force that is the envy of nations and has become a powerhouse of the knowledge economy, ranking number one in its class of creative workers. The success seems even more remarkable when contrasted with its dismal economic past. Looking at the history there are some questions like How can country with a very sluggish growth performance move to a high growth path so quickly? How can a country with a very high level of unemployment and net emigration can be transformed into close to full employment and net immigration. Let’s look in to some of the factors which led to the development of Ireland.

FACTORS FOR SUCCESS Foreign Direct Investment: The Important Part of Irish Development From the early 1930s and the late 1950s high tariff barriers and a strict prohibition on foreign ownership of firms operating in Ireland was the foundation of policies designed to promote local manufacturing from the very low base inherited at independence (Barry and Bradley, 1997). The late 1950s had seen various changes in the Irish policies and along with it came the abolishment of the Control of Manufacturers Act (which prohibited foreign ownership). It was systematically replaced by a policy that cultivated zero corporate profits tax on manufactured exports, attractive investment grants and a completely taking off the tariff barriers within a short span of time (Barry and Bradley, 1997). Favourable government policies do not alone attract a Multi-National Corporation (MNC) to another country.

A favourable policy coupled with cheap and educated labour is one of the other most important factors in attracting the MNC to a host country. Ireland was suffering from high unemployment rates in the 1980s and this was coupled with the education policies of 1960s maturing at that time; this led to a creation of huge pool of English-speaking young and educated but unfortunately unemployed workforce (Collins, 2007). By now Ireland had all the elements of enticing FDI but, it needed someone to ‘ sell the message’. In this respect Industrial Development Agency (IDA) Ireland, the state agency for attracting and supporting MNC’s inward investment played an important role. IDA’s considerable autonomy and success built the confidence in the government to make serious contribution to industrial policy. Many factors contributing to the success of IDA were intangible, and one of it included the understanding of potential client needs and how they can be met by investing in Ireland and foresight to identify and pursue opportunities ahead of rivals (Rugman and O’Higgins, 2002).

The final factor which created Ireland as a destination for foreign investment was its place in Europe. Ireland was one of the main benefactors of the European Union’s structural funds in the early 1990s. Much of these funds were spent on improving transport and communications infrastructure (Collins, 2007). With the help of the EU funds Ireland was able to “ go digital” early this meant by the mid 1990s almost 75% of users were digitally exchanging, also a direct fibre-optic link was established between Ireland and United States. These funds also helped them to develop roads, ports and airports (Collins, 2007).

Ireland’s place in Europe is one of the major selling points for companies outside the European Union, particularly for the American firms. Setting up a company in Ireland means setting up a presence within the boundary of the European Union(O’Sullivan, 2000). The final and the most unique factor is that Ireland can maintain a symbiosis with America and Europe. So if you are a non European company, investing in Ireland means you have a pool of cheap, well educated english speaking youth, favourable infrastructure, favourable government policies and a close proximity to Europe. All these factors make Ireland an attractive destination for foreign investment. We can see from examples that companies like Microsoft, Apple, Intel, Dell, Bristol-Myers Squibb, Eli Lilly etc.

have successfully made Ireland as one of their base (Hill, 2007). Till recent times Ireland has been successful in attracting foreign investors, but there are some factors which could hamper further growth. One of which is, just because the corporate taxes are high it may deter foreign investment, it does not mean that having low corporate will keep and attract foreign investment. Also a change in some of the government's policies may result in dramatically affecting some of the advantages that Ireland has.

We can see this from the example that when the minister of finance re-introduced the third level college fees it resulted in reductions in number of students applying for third level education, the students applying for computer science dropped from 10, 000 to just in excess of 5, 000 (Flynn, 2003). The systems of education and innovation have resulted in cutbacks that have started to undermine the basis on which the Ireland's economy was constructed. These are some of the factors which could affect further foreign investment. BIRTH OF " THE CELTIC TIGER" One of the major factors for the economic development of Ireland past the 1950s era has been due its ability to retain and keep its workforce. The major reason for this has been the increase in job opportunities for people.

The employment soared from 1. 1 million to 1. 9 million within a span of a few years; as it can be seen from the following table Source: SEAN, D. (2006) How Ireland Became The Celtic Tiger.

The population increased by 15 percent during the time period of 1996 till 2005 and in one year alone the employment increased by 5 percent (Riain, 2000). Ireland is now seen as the land of opportunity by many workers from many European Union member countries. The unemployment has come down to 4. 4 percent, it less than half of the EU average and also the public budget is in balance (Sean, 2006).

Along with the increasing employment came the increase in Gross Domestic Product (GDP). During the pre independence era the Irish rate of growth is not overly impressive but at it was also not out of line with selected other nations during that time. It is during the last half of the twentieth century (1950-73 and 1973-1992) the Irish economy does well than the UK and does if not better but on the same average as of the four Scandinavian nations. During the most recent time phase that has been analysed the Irish economy smashes each of other countries indicators.

This is visible from the below table Post independence (1992) 195019731992 Ireland3, 5187, 02311, 711 UK6, 84711, 99215, 738 France5, 22112, 94017, 959 Germany4, 28113, 15219, 351 Scandinavian avg5, 63011, 97716, 852 European avg5, 51311, 69417, 412 Fringe Avg1, 9456, 7069, 591 Note:- European average is based on 12 countries, Ireland is not included. UK, France, Germany and 4 Scandinavian countries (are Denmark, Finland, Norway, Sweden). The fringe European countries are Greece, Portugal, Spain and Turkey and are not included in European average. Source:- (Crotty, 2000) Subsequently in the years to follow the Irish GDP and GNP grew at a very high rate.

This can be seen from the below table Source: KIRBY, P. (2004) Development Theory and the Celtic Tiger. European Journal of Development Research, 16, 301-328. These high rates were due to the huge number of multinational corporations which had made Ireland their base for exports to the EU or other countries. During this time IT companies were flocking Ireland and also the pharmaceutical industries were making use of the cheap educated labour available to them. All these development and growth has led to Ireland being named as " The Celtic Tiger".

The actual term Celtic Tiger was first used in a Morgan Stanley report of August 1994. The term is an analogy to the nickname " East Asian Tigers" applied to South Korea, Singapore, Hong Kong, Taiwan and other countries of East Asia during the period of rapid growth in the 1980s and 1990s, as we have seen from above examples (Gottheil, 2003). The term is used in dual terms, to indicate the boom period as well as the country. I feel the name fits Ireland, because it has worked its way into becoming a " Tiger Economy". The situation for the government was a tricky one as more and more people were leaving the country to find a better life, the policies were not favourable for foreign investors, and to come out of such a situation by making dramatic changes with the policies etc.

and to attract those same people back to the place which they once left, building up the economy which now didn't solely depend on UK for exports. Government InitiativesTo live up to the notion of Celtic Tiger the government has taken various steps. It has initiated various policies like a)National Development Plan:- This was introduced to create sustainable national economic and employment growth, strengthen international competitiveness, foster balanced regional development, and promote social inclusion and also to develop the infrastructure like roads, ports and airports (Brad Hossack, 2007) b)Building Ireland's Knowledge Economy to 2010:- This plan was developed to build up Ireland's R investment in the enterprise as well as the public sector and to develop a pro-innovation culture. Brad Hossack, 2007) These are some of the examples of the initiatives taken by the Irish government to live up to the name of Celtic Tiger. CHALLENGES FACED We have seen a boom in the Irish economy, and as history suggest that after a boom there has to be a period of depression (no matter how small it is). It same happened with Ireland in 2002-03 the growth rate slowed down.

So there are some challenges which might be faced by the economy and might prevent further investment by foreign companies. These challenges are 1)Loss of competitiveness:- Poor infrastructure, rising wages, also the addition of eight new Eastern European members to the EU will affect the competitiveness of the Irish economy. There have been instances of outsourcing of jobs to other European nation. Also the wages are high compared to the European average and this might affect the low-mod skilled workers. 2)Promotion of indigenous industry:- Successful promotion of the indigenous industry is one of the major challenges faced by Ireland. There are not many companies in Ireland that have annual revenue of more than a billion Euros.

So this can be a problem for the government. 3)Over reliance on foreign energy sources:- Another possible threat is Ireland's over-reliance on foreign oil. Ireland for many years curbed dependence on foreign energy sources by developing its peat bogs, building a dam on the River Shannon, and developing off shore gas fields. However, today the potential for hydroelectricity has been tapped as far as it can be, gas is now in use to the extent it can be, and the peat bogs are no longer economical.

This has led to an ever-increasing need for oil. These are some of the problems and challenges which lie ahead for Ireland. IRELAND IN THE EUROPEAN UNION Before joining the European Union, Ireland's external relations were characterised by dependent relationship on the United Kingdom. In 1973 Ireland because of UK joined the European Union (Gottheil, 2003). Joining the European Union helped Ireland strengthened its economy and also showed them that there are different ways of achieving desired social and economic objectives. Being a full member of the European union Ireland's industry and agriculture had a direct to the large EU market (T.

P. O'CONNOR). Ireland at the time of entering was one of the poorest of the EU nation, so the richer members thought of coming to help the poor member of the family. The help came in the form of substantial annual structural grants that allowed Ireland to continue the infrastructural investments that had been shelved owing to the lack of funds. EU funds forced the Irish government into multi-year planning, which meant that programmes once approved were sure of funding for many years which enabled long term commitments.

Did becoming a part of European Union work? Yes, the structural funds programme of EU triggered a dramatic increase in the FDI from US, and Ireland was successful in capturing a very much increased share of these FDI inflows. This made US a major player for the economy shifting the focus away from UK. Prior to joining the EU its annual rate of economic growth was less than that of Italy, Spain, Greece and Portugal, but since its joining there has been a huge turnaround in this picture, this can be seen from the below table Source: GOTTHEIL, F. 2003) Ireland: what's Celtic about the Celtic Tiger? The Quarterly Review of Economics and Finance, 43, 720-737. And because of the role the FDI played in the 1990s, Ireland was able to have tiger like growths for the economy. CONCLUSION Over the past decade we have seen Ireland grow at a very rapid pace.

This has been due to Ireland's ability to attract FDI. It emphasised on low taxation for promoting economic activity. Low taxes become vital if a region has to encourage foreign direct investment. Ireland had substantial reductions in the tax rates from the year 1985 and 1998. The rate of income tax has also come down from 65% to 46%, the capital gains tax has been reduced from 60% to 20% and capital acquisition tax has come down from 55% to 40% (MURPHY, 2000). Timely tax breaks have generated worthwhile employment generating activity.

This has helped Ireland become a trading nation with global perspective. Hundreds of overseas companies have selected Ireland as their European base and are also involved in a wide range of activities. Many people including the emigrants which moved are returning to the country not only because of tax incentives, well educated labour force, but, also because of the quality of life offered there. The Globalisation Index study, named Ireland the most globalised economy in the world form the year 2002-2004 and the report also commented that it has highest degree of economic integration amongst the developed countries (Sean, 2006).

Though it has been successful, the economy has overlooked or neglected some of the factors like not promoting indigenous industries, not having favourable environment for entrepreneurship etc. RECOMMENDATIONS Following our conclusions we recommend that ? Focusing attention on deregulation of government monopolies. ? Encourage greater mobility of students; work experience promotes flexibility and openness which the MNC's are always looking for. ? Encourage participation in both globalisation and Europeanisation of the economy.

? Create a favourable entrepreneurship environment. ? Investing in upgrading R&D projects capabilities. ? Continuous improvement of the infrastructure. ? Improving the broadband infrastructure of Ireland.

Monitoring the developments in the neighbouring countries as to what they are doing BIBLIOGRAPHY BARRY, F. & BRADLEY, J. (1997) FDI AND TRADE: THE IRISH HOST-COUNTRY EXPERIENCE. Economic Journal, 107, 1798-1814. BRAD HOSSACK, J. D.

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