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Ireland: the Celtic Tiger and the Black North

The partition of Ireland into two separate political jurisdictions in 1922 reflected the very different economic trajectories pursued by the two parts of the island during the course of the nineteenth century. Since then, both regional economies have experienced several changes of direction in their respective development paths. For a brief period in the 1960s, similar development policies produced a pronounced movement towards convergence in the economic structures of the two regions. Since then, however, the trend has been toward renewed divergence, so that at the beginning of the 21st century the economy of the Republic of Ireland appears much more vibrant than that in Northern Ireland—a remarkable reversal of the position that obtained at the time of partition.

This chapter traces the historic evolution of the two Irish economies, placing this evolution in the context of general concepts and models derived from the literature on economic development. Despite the different and varying development trajectories followed by the two economies, these trajectories can both be readily accommodated within a generalized core-periphery development model. At the same time, there have been exceptional elements in the developmental experiences of the two economies, which have conferred unique features on each.

Interpreting Ireland's Economic Development Experience: A Theoretical Framework

That both levels and forms of economic development are spatially variable, at global, national and regional scales, is self-evident. It is a basic tenet of this chapter that the distribution of more or less developed places tends to be organized in a coherent and recurring spatial structure, which is reproduced at different spatial scales. The key organizing feature of this structure is its division into "core" regions, with relatively high development levels, and "peripheral" regions characterized by lower levels of development. This core/periphery terminology is generally attributed to Friedmann (1972) who used the concepts as key building blocks in his general theory of polarized development, whereby resources in the capitalist economy tend to get sucked into the dominant core regions. Thus, at the regional level resources such as capital and labour are attracted to urban centres from their rural hinterlands; at the national level there is a similar process of attraction from the provinces to national metropoles; while at the global level one finds a similar process of movement of labour and/or financial resources from poorer countries to the triadic centres of the USA, Japan and western Europe.

The crucial element of core/periphery theory is the nature of the linkages that develop between the two types of regions. Thus, cores exert various forms of control over peripheries whereby the latter function, to a greater or lesser extent, in ways that work to the benefit of the former. The consequence of this is that peripheries, while they may experience some degree of development themselves, take on socio-economic configurations that are subordinate to the interests of the dominant cores. This in turn constrains the development options open to peripheries, usually in ways which confine them to lower living standards and more restricted life chances than are the norm in the core regions. This dominance/dependence relationship may be seen to operate in core/periphery structures at all spatial scales, be they intraregional, intranational or international.

Among the kinds of linkages contributing to the dominant position of core regions vis-à-vis the periphery are the following (Brookfield 1975; Munck 1993):

(i) unequal trading relations between core and periphery whereby the latter specializes in exports to the former which fetch prices far below their ultimate market prices,
(ii) direct ownership of productive activities in the periphery by core-based firms,
(iii) selective outmigration by energetic, enterprising and educated personnel from the periphery to the core and
(iv) political and cultural domination of the periphery by the core

which tends to deter local attempts at self-help and self-reliance within the periphery.

The nature of the different economic structures that develop in cores and peripheries is encapsulated in Amin's (1974) typology, which characterizes the former as being "autocentric" and the latter as being "extraverted." Autocentric economies are internally focused; their leading economic sectors are largely locally owned and controlled and the benefits of economic growth are mainly felt locally (through, for example, local reinvestment of profits and the generation of local supply linkages). In extraverted economies, by contrast, the leading economic sectors are externally oriented and frequently externally controlled, giving rise to a weak local circulation of the benefits of growth in these sectors.

While different peripheral economies may portray different configurations of extraversion, and these configurations may change over time, the actual condition of peripheralization tends to remain permanent; in other words, there are very few instances where extraverted economies have made a transition to autocentrism (the so-called Tiger Economies of East Asia being notable exceptions). This is partly because of the economic (and also frequently social and political) control exerted by core interest groups in the periphery and partly because of the tendency for peripheral regions to become dominated by internal interest groups (e.g., primary export producers, traders and suppliers to transnational branch plants) who are committed to maintaining the existing core/periphery links.

However, there are numerous examples of regions which were once part of the core subsequently becoming peripheralized. This applies in particular to regions within advanced economies, which, during the early stages of industrialization, developed a narrow industrial base built on sectors that subsequently went into long-term decline. The classic examples here are regions that specialized in textiles and clothing, coal mining, iron and steel and shipbuilding. Governments in advanced economies have typically sought to counteract the effects of industrial decline in depressed industrial regions by attracting replacement industry from elsewhere. Where such policies have been effective, the result generally has been to create dependency structures similar to those found in peripheral economies at the global level. Industrialization based on branch plants provide low-skill and low-pay employment, source materials and services externally, export their profits, are vulnerable to contraction or closure at times of economic difficulty and do little to enhance the technological or entrepreneurial capabilities of host regions (Hamilton 1993; Harris 1990; Massey 1984).

The theoretical concepts introduced in this section will be of use in interpreting the Irish economic development experience, which has seen both parts of the island pass through a series of development phases, each

of which conferred on the respective regional economies a distinctive "developmental status" in terms of their particular position within the prevailing core/periphery system. The next section reviews, firstly, how the Irish economy initially became commercialized within the confines of its status as a colony of the emerging British empire and, secondly, how the onset of industrialization in Britain impacted differentially within the Irish space economy, thereby creating the material conditions leading ultimately to the political partition of the island.

The Impact of Commercialization and Early Industrialization on Ireland

The incorporation of Ireland into capitalist core/periphery structures had its origins in the political subjugation of the island by England's centralizing Tudor monarchy, a process that was completed by the beginning of the 17th century. This was followed by the mass confiscation of land and its transfer to a new class of Protestant landlords brought in from Britain. In the northern province of Ulster, substantial numbers of Protestant settlers were brought in from Scotland and England and installed as tenants alongside the indigenous population (Breathnach 1988). The new landlord class was strongly capitalist in orientation and energetically promoted commercial production on their estates. Initially, mercantilist restrictions imposed by the English government to protect domestic commercial interests meant that these exports were directed to continental European and transatlantic markets. However, with the growth of the British market arising from the onset of industrialization in the second half of the eighteenth century, these restrictions were relaxed. Thereafter, the Irish economy became increasingly integrated with that of Britain.

Prior to 1800, Ireland had its own subordinate parliament based in Dublin that was able to afford some protection to Irish industry from external competition. The 18th century, therefore, saw considerable growth of woollen and cotton production to serve the domestic market. However, much more vigorous growth was experienced by the linen industry, originally introduced into the northeast part of Ireland by Huguenot refugees. Whereas the export of woollen goods was prohibited by the British parliament, in order to protect England's own influential woollen producers, no such restrictions applied to linen, with the result that linen exports soared in the second half of the 18th century.

In 1800, the Dublin parliament was abolished and Ireland became an integral part of the United Kingdom of Great Britain and Ireland. The resultant introduction of free trade between the two islands had a devastating impact on Irish manufacturers who were unable to compete with Britain's

mass-producing factories (Munck 1993; O'Malley 1989). However, this experience was by no means unique to Ireland: in England, the long-established woollen textile industries in East Anglia and the West Country were decimated in the same period as production became concentrated in the West Yorkshire coalfields (Dunford and Perrons 1983). The Irish linen industry was spared this fate, as no large-scale British-based competitor emerged. When it began to mechanize in the 1820s, it also became concentrated in and around the port of Belfast in the northeast. An engineering sector grew up to supply material and machinery for linen processing. Further, investment in shipbuilding saw two major shipyards being installed in the second half of the 19th century. An industrial complex of interrelated industries therefore grew up in the Belfast region, similar to those that emerged contemporaneously in various parts of Britain. By the late 19th century, northeast Ireland was the world's leading centre of linen production and Belfast was accounting for one-quarter of the total shipping output of the United Kingdom (Munck 1993).

The 19th century, therefore, saw the emergence of two distinctive regional economies in Ireland—an export-oriented industrial economy in the northeast and an equally export-oriented agricultural economy in the remainder of the island. The autocentric nature of the Belfast regional economy may be gauged from the generation of local linkages by the region's basic (exporting) industries, local reinvestment of profits and rapid expansion of employment and population. The extraverted nature of the agricultural economy may equally be gauged by the fact that food production was geared mainly for export rather than catering for the needs of the indigenous population. This was reflected in the build-up in rural areas of a large marginalized population, which had been pauperized by the mechanization and urbanization of the linen industry and the decline in labour-intensive tillage agriculture in the first half of the 19th century. These people became the chief victims of the famine, which accompanied the repeated failure of the potato crop in the 1840s. The famine also accelerated the already established process of out-migration which saw the population of what now constitutes the Republic of Ireland falling from 6.5 million in 1841, to 3 million in 1921.

While Irish nationalist historiography conventionally interprets 19th-century deindustrialization and out-migration as evidence of British colonial oppression, in fact this was the normal experience of those rural regions throughout the U.K. that failed to participate in the Industrial Revolution (Dunford and Perrons 1983). While the famine and its aftermath gave an added poignancy to the Irish experience, one could, for example, cite the contemporaneous Highland clearances in Scotland as a similar instance of the very painful adjustment processes visited on peripheral rural areas by

the spatially uneven nature of capitalist development (Hunter 1976). One consequence of large-scale out-migration was that it allowed those who remained behind to enjoy an average living standard, which, while well below that of Britain at the beginning of the 20th century, was on a par with most countries in Northern and Western Europe (Kennedy et al. 1988).

Nationalism and Partition

A movement for agrarian reform emerged in Ireland in the late 19th century, largely spurred by low prices in the recessionary 1870s. Since the landlord class was almost exclusively Protestant and of English extraction while the tenantry (outside of parts of Ulster) was Catholic and Irish, this so-called "land war" acquired an additional political dimension, with the result that the campaign for reform became inextricably intertwined with a growing nationalist campaign for political independence. The British government sought to defuse this campaign by legislating for tenant purchase of the holdings they occupied, with the aid of government loans—a process that was effectively completed by the early 20th century. However, the vacuum thereby created in the national movement was quickly filled by the emergence of Sinn Féin, an organization with a very different agenda from that of the Irish Parliamentary Party, which had hitherto been the main champion of Irish independence and which was strongly linked with rural trading and farming interests. Sinn Féin originated as an urban-based group whose chief concern was the promotion of industrialization in southern Ireland. This would require protection from British competition for nascent Irish industry, which in turn could only be achieved by the achievement of political independence (Pringle 1985).

Initially a rather marginal group, Sinn Féin acquired a sharp political edge and broad appeal through a combination of infiltration by the militant Irish Republican Brotherhood, popular disquiet at the postponement of the granting of Home Rule (provided for in legislation passed in 1912) following the outbreak of World War II, opposition to conscription and widespread revulsion at the treatment of the leaders of the ill-fated Easter rebellion of 1916 (Lee 1989). In the 1918 parliamentary elections, Sinn Féin came from nowhere to capture 73 of the 105 Irish seats in the House of Commons.

The rise of Sinn Féin was viewed with alarm by the industrial interests in the Belfast region, for whom continuing free trade with Britain was of vital importance (Munck 1993). Since these interests, and those whom they employed, were mainly Protestant, the subsequent conflict between nationalist and unionist causes, like the earlier land war, became imbued with a religious/sectarian dimension. The immediate solution to this conflict was partition, with Dublin and most of rural Ireland becoming an indepen-

dent state (the Irish Free State) in 1922, while the remainder of the island (Northern Ireland) remained within the U.K., albeit with its own parliament with responsibility for running the province's internal affairs.

At the time of partition, there were profound differences between the economic structures of the Irish Free State (hereinafter referred to as the "South") and Northern Ireland (the "North"). In the former, more than one-half of the labour force was engaged in agriculture with only 10 per cent in manufacturing. In Northern Ireland, by contrast, one third of the workforce was engaged in manufacturing, with just 29 per cent involved in agriculture. By the end of the 20th century, these differences were largely eliminated as the two economies became increasingly similar, having undergone—in both cases—fundamental changes in their developmental status.

Post-Partition Industrial Decline in Northern Ireland

It is perhaps ironic that the industrial base in the North, which partition was designed to protect, began to unravel almost immediately afterward. The long-term nature of the decline was disguised to an extent by the relatively short-term effects of the post-World War I recession, the Great Depression of the 1930s and the economic boost provided by World War II and the immediate post-war boom. As the 1950s progressed, however, and the North's industries were bypassed by the wave of economic growth that swept across western Europe, it became apparent that these industries were facing a fundamental crisis. As with many of the industrial regions on the British mainland, the North was overdependent on a narrow industrial base whose products were no longer competitive. Thus, the linen industry had come under growing pressure from the rise of synthetic textile production and from low-cost cotton production which was emerging in other parts of the world, while Harland and Wolff, the North's remaining shipyard (the other, Workman Clark, having closed in the 1930s), was also finding it difficult to compete with newly constructed or reconstructed competitors elsewhere.

Despite attempts on the part of the Northern Ireland government to restructure and modernize existing industry in order to make it more competitive, the decline of the North's leading industrial sectors gathered pace in the 1950s. Employment in linen production, which stood at 87,000 in 1924 (Munck 1993: 53), had fallen to 33,000 sixty years later; in the period 1958-64 alone, 27,000 jobs were shed by the industry (Cebulla and Smith 1995: 82). Employment in the Harland and Wolf shipyard fell by one half—to 15,000—between 1950 and the early 1960s (Busteed 1974). Increasingly, therefore, the focus of policy shifted to the attraction of outside investment as a means of generating replacement industrial employment (Walsh 1979).

Initially, this new policy approach was spectacularly successful, so that by 1973, externally owned plants accounted for just over one-half of all manufacturing employment (for further details, see chapter 7). Three-quarters of these jobs were provided by British-based firms, with a further one-fifth emanating from the USA (Hamilton 1993). While this influx of externally owned firms did not succeed in completely counteracting the decline in indigenous industry, it is clear that without it, the contraction of the North's industrial sector would have been truly calamitous. To a considerable extent, inward investment had been attracted by the existing industrial traditions of the region, with the textiles and clothing sector (including artificial fibres) accounting for almost one-half of all employment in externally-owned firms in 1973 and food, drink and tobacco sector accounting for a further 20 per cent.

The period 1945-1973, therefore, saw a significant shift taking place in the North's developmental status, as control of the region's industrial base passed to predominantly external control. Henceforth, key business decisions affecting the Northern economy would be made outside the region; technology and inputs would be routinely sourced outside the region; profits generated within the region would, to a greater or lesser extent, be withdrawn from the region and reinvested elsewhere; and the routine and low-skill production operations which characterized the externally owned sector would tend to be first in line for contraction or closure at times of difficulty for their parent firms (Harris 1990). In essence, the North's economy had become extraverted; in other words, Northern Ireland had moved from the economic core to the periphery—largely an internal periphery within the U.K., but to a significant extent also an external periphery of the U.S. economy.

The South's Experiment with Economic Nationalism

The Sinn Féin party, which led the campaign for independence, fragmented immediately now that independence had been achieved, leading to a brief but bitter civil war. The victors established a new governing party (Cumann na nGaedheal) which mainly represented commercial farmers, traders and the urban professional class, whose main concerns were to establish the machinery of state, restore "normal" political conditions and, above all, to promote agricultural exports (Lee 1989). This meant that there was to be no change in the South's developmental status as a primary exporting peripheral economy, except that it was now an external rather than an internal periphery of the British core.

The bulk of those who fought on the losing side in the civil war eventually formed their own party, Fianna Fáil, which became the main opposition

party in parliament. In contrast to Cumann na nGaedheal, Fianna Fáil adhered to the original Sinn Féin aspiration of achieving industrialization and sought to attract the allegiance of the disadvantaged—the small farmers, agricultural labourers and the urban working and lower middle classes—in pursuit of this objective (Lee 1989). When it was elected to government in 1932, Fianna Fáil immediately set about putting in place a set of tariffs on imported industrial products, which, in terms of their level and coverage, made the South one of the most heavily protected economies in the world by the mid-1930s. This produced the desired results in the form of a spurt of industrial growth in the 1930s, which continued in the immediate aftermath of World War II.

Fianna Fáil's policy of economic autarky was inevitably doomed to failure. The small size of the South's economy ensured that the newly created industrial firms would be too small to expand into export markets once the modest needs of the domestic market were satisfied. In any case, the firms in question were mainly producing low-technology basic consumer goods in which Irish firms would have had little competitive advantage. Furthermore, the need for these firms to import most of their materials and production equipment created chronic balance-of-payments problems for the Southern government. With the demands of the domestic market largely satisfied by the early 1950s, industrial growth ground to a halt at a time when the British economy was booming as post-war recovery proceeded apace. The result was that the emigration rate reached unprecedented levels and the very viability of the Southern state appeared to be in question. It was clear that radical measures were required to rescue the economic situation.

The switch to export-orientated industrialization in the South

In the late 1950s the Fianna Fáil government abandoned the policy of protectionism deciding instead to follow the path already adopted in the North to combat industrial decline (i.e., to create an industrial export base through the attraction of foreign investment). In addition to the availability of cheap labour, the incentives offered to attract outside investment included substantial capital grants and, in particular, an exemption from corporation tax on all profits derived from exports. An energetic agency—the Industrial Development Authority (IDA)—was also established to promote the Republic of Ireland as a location for mobile transnational investment.

The pattern of inward investment into the Republic of Ireland from 1960 on will be considered in detail in chapter 7, and only a brief outline will be provided here. In the two decades after 1960 there was a substantial buildup of inward investment, boosted in particular by the South's accession to the European Economic Community (EEC) in 1973. Thus, by 1981, foreign firms accounted for 35 per cent of all manufacturing employment.

The U.S. quickly emerged as the dominant source of inward investment: between 1973 and 1981 that country's share of employment in foreign manufacturing firms rose from 27.5 per cent to 42 per cent.[1]

As with Northern Ireland, the inflow of new inward investment was largely counterbalanced by decline in the indigenous industry, especially after 1973 when a combination of international recession and EEC entry exposed the hitherto protected and high-cost native firms to strong competition from abroad. In the 1960s and 1970s, then, the economies of Northern and Southern Ireland grew increasingly alike in economic structure and developmental status, as externally owned firms assumed a dominant position in both economies. In the South, the influx of export-oriented manufacturing firms led to a sharp growth, so that the proportion of merchandise exports accounted for by non-food manufactures rose from just 7 per cent in 1950 to 64 per cent in 1980. With foreign firms increasingly focusing their exports on the more dynamic economies of the European mainland, the proportion of the South's exports going to the U.K. fell dramatically, from 80 per cent in 1950 to 33 per cent in 1985.

While the surge in U.S. investment in the 1970s was mainly concentrated in high-tech sectors (especially pharmaceuticals/chemicals and electronics), the actual work that they provided was largely unskilled (assembly and packaging) and involved a disproportionately high number of women workers (Breathnach 1993). Their inputs mainly came from affiliate firms located abroad and their outputs were almost entirely exported (McAleese 1977). And, while in the early years there was a high level of local profit reinvestment as firms built up their Irish operations, a high level of profit repatriation became increasingly apparent as the stock of foreign firms built up and matured: by 1985 it was running at 7.5 per cent of GDP.

Before 1960, the South's primary role in the international economy was to supply agricultural products to the U.K.—the classic function of peripheral economies under the "old" international division of labour, identified by Marx (1961). By 1980, however, the South had made the transition to a different kind of peripherality—that associated with the "new" international division of labour characterized by the offshoring of routine production work from the advanced economies to low-cost export platforms in the global periphery (Fröbel, Heinricks and Krege 1980). This continuing peripherality was reflected in the fact that, despite the transition from a primary-exporting to an industrial-exporting economy, there was no convergence in living standards with the European core countries, with the South's per capita GDP remaining at two-thirds of the EU average through the 1960s and 1970s.

Economic Crisis in the North 1970-1990

It was argued earlier in this chapter that one of the inherent features of peripheral branch plant industrialization is disproportionate vulnerability to industrial contraction as external circumstances change. This vulnerability became starkly apparent in both parts of Ireland in the 1970s and 1980s. In the North, the manufacturing plants brought in during the 1950s and 1960s to replace declining traditional industry themselves entered a major phase of decline in the 1970s. A key factor here was a general contraction experienced by the synthetic textiles sector in the advanced economies in the 1970s, greatly aggravated by the onset, in 1973, of the world's first major postwar recession. Thus, employment in externally owned industries fell by more than 50 per cent between 1973-1986 alone.

However, on this occasion there was no prospect of replacing the jobs being lost, due to an almost complete collapse in the inflow of externally-sourced investment (Harrison 1990). This fall-off in new inward investment may be attributed to the outbreak of political conflict, which began in the late 1960s and intensified in the following decade. The consequences of this combination of developments was truly catastrophic for the North's industrial base, with manufacturing employment falling from 180,000 in 1970, to 103,000 in 1986. It has been estimated that the political troubles cost the Northern economy 40-46,000 manufacturing jobs in this period (i.e., over half the total decline in manufacturing employment) (Hamilton 1993).

The problems besetting Northern industry were not solely derived from political unrest, as was shown in a report published by the Department of Economic Development in 1987 (*Building a Stronger Economy: The Pathfinder Process*). This report identified six key areas of weakness that inhibited dynamism in the regional economy:

(i) lack of entrepreneurialism,
(ii) lack of training and skills at all levels,
(iii) a small domestic market and isolation from outside markets,
(iv) a small manufacturing sector and large public sector,
(v) a high level of dependence by the business sector on public funding and
(vi) the political situation (which, apart from deterring investment, meant a sidelining of economic issues from political discourse). (Clulow and Teague 1993)

Bad as it was, the economic situation in the North would have been much worse were it not for the annual subvention paid by London to the Northern Ireland government in order to maintain public services at a level close to the British norm. Undoubtedly this subvention, augmented by the spin-offs of security spending by the U.K. government in the North, has been

essential in terms of maintaining a modicum of political stability and economic viability in the region. Clulow and Teague (1993) estimated that the removal of the subvention would lead to a fall of 25 per cent in regional GDP. Without this external funding, therefore, living standards in the North would have been much lower than they actually were and unemployment—already extremely high at around 20 per cent in the mid-1980s—would probably have been approaching politically untenable levels.

Economic Crisis in the South 1980-1990

While the absence of political strife and the boost provided by EC membership meant that the Southern economy was in much better shape than its Northern counterpart at the end of the 1970s, a downturn in the following decade produced an economic crisis in the South that became similar in scale to that being endured north of the border. The immediate cause of this crisis was a severe international recession in the early 1980s, which had the effects of greatly slowing down the rate of new inward investment and hastening the further decline of the indigenous industrial sector. In addition, for the first time since the inward investment policy was introduced, there was a decline in aggregate foreign-firm employment.

However, as the 1980s proceeded, a new phenomenon began to become apparent. While employment in the foreign sector had stagnated, output continued to expand strongly. Between 1980 and 1987, while overall manufacturing employment fell by 20 per cent, manufacturing output, in real terms, grew by two thirds. This phenomenon of "jobless growth"—mainly accounted for by the automation of manufacturing processes through the application of new technologies—focused attention on the lack of spinoff employment in the domestic economy arising from the growth of the foreign sector. With the overall economic growth rate slumping to near zero, unemployment rising to 17 per cent in 1987 (despite the resumption of large-scale emigration) and government indebtedness soaring, criticism grew of the reliance on foreign investment as the key driver of economic and employment growth. Instead, it was increasingly argued, there should be a shift in the focus of industrial policy to the promotion of indigenous industry.

This, indeed, was the primary message of the 1992 report of the government-commissioned Industrial Policy Review Group (1992), popularly known as the "Culliton Report" after the group's chairman, businessman Jim Culliton. The Culliton Report further argued that the best way of going about this would be via the cultivation of sectoral clusters, including end-product firms, support firms supplying inputs to these firms, and appropriate institutional and infrastructural supports to underpin the clusters.

Despite being endorsed by the government's own think tank, the National Economic and Social Council, this strategy was never taken on board by the South's industrial development agencies.[2] Indeed, the whole thrust towards a shift in policy emphasis to the indigenous sector was to become sidelined as the rate of inward investment picked up again in the late 1980s and then rose to unprecedented levels in the following decade.

Political Normalization and Economic Recovery in the North 1990-2000

In the 1990s there was a significant improvement in the North's economic performance with annual GDP growth averaging 2.3 per cent as against 1.5 per cent for the U.K. as a whole (Birnie and Hitchens 2000). The long-term decline in manufacturing employment appears to have been arrested, while there has been strong growth in services employment, with the result that the unemployment rate has fallen sharply (from 19 per cent in 1986 to just over 5 per cent in 2002). A number of factors may have contributed to this improved situation in the 1990s in the Northern economy. Undoubtedly the buoyant global economic environment for most of the decade played its part. So too did the return of relatively stable political conditions which improved the general climate for investment. Changes in industrial policy following the Pathfinder Report of the late 1980s are also likely to have been significant (Birnie and Hitchens 1999). These involved a move away from the traditional emphasis on capital and employment grants and towards "softer" forms of assistance designed to make indigenous firms more internationally competitive. These have focused on upgrading both technical and management skills, with a view to improving productivity and competitiveness. A much more selective approach to business support was also introduced, targeting firms with proven performance and/or potential especially.

The fact remains, however, that even with near-full employment, per capita GDP remains at just three-quarters of the U.K. average. This raises questions about the quality of the employment created over the last decade. According to Birnie and Hitchens (1999), the average productivity of manufacturing workers in the region remains low, apart from some sectors dominated by externally sourced firms. Employment growth in the services sector has also been strongly concentrated in low-wage occupations. Almost one-half the growth in the sector between 1985 and 1992 was in wholesale/retail trade and hotels and restaurants, where low pay and poor conditions are the norm. At the same time, there was strong growth in the finance, business and real estate sector, but very modest growth in the public administration, education and health subsectors, suggesting that the social

polarization tendencies, widely reported in the advanced economies in the post-Fordist period (Breathnach 2002), are also at work in Northern Ireland. In other words, there is strong growth in both high- and low-income forms of employment, while the classic middle-ground occupations in manufacturing and the public service are either slow-growing or declining.

The South: The Celtic Tiger Takes Off

In the ten-year period 1992-2002, the Republic of Ireland's GDP almost doubled in real terms. This high level of economic growth was accompanied by a 45 per cent increase in overall employment. The rising demand for workers has been met by a combination of natural population growth, rising participation rates (especially on the part of women), falling unemployment (down to 4.3 per cent in 2000) and immigration. Despite strong overall population growth, there has been a marked rise in average living standards, with per capita GNP moving from around 60 per cent of the EU average in the late 1980s to almost 100 per cent in 2001.[3] This means that the historical situation where average living standards in the North were significantly higher than in South has been dramatically reversed.

The main driving force behind the Celtic Tiger was a new surge of inward investment which began in 1993, and which saw the sales of IDA-assisted foreign firms more than trebling in real terms between 1992 and 2001. This investment surge and its consequences will be discussed in detail in chapter 7. The new wave of inward investment involved a much higher skill content than the low-skill projects, which had typified inward investment since 1960. This was in response to the increasing availability of skilled workers, due to rising education levels and population growth. A further key feature of the recent investment surge was that it involved a high proportion (up to one-half in more recent years) of projects in service activities such as software and financial services.

The higher general wages and salaries generated by the Celtic Tiger have put pressure on the more routine manufacturing plants left over from earlier phases of inward investment, particularly affecting plants in the information technology sector, which has been in recession following the collapse of the dot.com bubble in 2001. As a consequence, there has been a series of plant closures and contractions in 2002 and 2003, many of them involving relocations to low-cost east European countries. This is a reprise of the similar clear out of established foreign plants which occurred in the 1980s, and points to the contingent nature of the kind of industrialization upon which the Southern economy has become dependent over the last forty years. Thus, despite the higher quality of the foreign operations which have moved to Ireland over the last decade and the rising living standards to

which it has given rise, the Republic of Ireland remains, in structural terms, a peripheral economy, albeit now part of what Todd (1995) has termed the "rich" periphery.

The IDA has already publicly stated that the types of operation which have recently been closing down are no longer sustainable in Ireland, and that the future lies in more technologically sophisticated types of manufacturing and, increasingly, in services such as software, financial services, R&D and entertainment. The IDA therefore has become increasingly selective in its targeting of new inward investment projects, with an emphasis on high-pay skilled employment, while shifting the main focus of its promotional activities to upgrading existing foreign-owned operations through the addition of functions such as R&D and administration. The IDA, therefore, is wrapped up in a constant process of attracting new rounds of investment to replace those rendered obsolete by processes of technological or socio-economic change. Hitherto the agency has always risen to the challenge of finding new rounds of investment, which not only replace the old, but build on them in terms of jobs created and the quality of those jobs. If a time should come, however, when the IDA is no longer able to keep Ireland ahead of the foxes chasing the mobile jobs made available by transnational firms, then the chickens of the Republic of Ireland's dependent form of development may come home to roost with a vengeance.

Conclusion and Future Outlook

This chapter has traced how the economy of what is today the Republic of Ireland became peripheralized during the course of the emergence of capitalism as the dominant global economic system over the last five hundred years. Because of the Republic's peculiar features of being close to the core regions of Europe and North America, of having dispensed with the surplus population generated by the processes of capitalist transformation, and of having obtained political independence which allowed it to pursue distinctive development policies compared with those peripheral regions which remained within the U.K., living standards have been achieved which are on a par with those obtained in the global core regions. However, the extraverted nature of the Republic's economy means that its current well-being remains contingent on decision-making processes over which it has little control.

Northern Ireland also possesses distinctive features that give its development experience and prospects a unique flavour. Originally a core region in the global economy, it found itself passing to the periphery as its basic industries faded away without indigenous replacement. This was a common experience of many former core regions in the advanced economies

in the 20th century. What exacerbated the Northern Ireland experience was the presence of deep-seated political conflict (itself intensified by the effects of economic decline), which greatly distorted the regional economy and constrained its development options. To an extent it remains a peripheral economy, being used as a base for low-cost production by externally sourced firms. Perhaps to an even greater extent it is an essentially artificial economy, bolstered by financial injections by the U.K. government, but with no real role to play in the contemporary global economy.

There has been much speculation concerning the future outlook for the North, should the current phase of relative stability develop deeper roots and produce a long-lasting political settlement. There has been much talk of a "return to normality," but the fact is that there is no normality to which the regional economy can return: it will have to carve out a new role for itself in the context of the progression of globalization and Europeanization. Northern Ireland would appear to have two development options. One of these is to maintain and, indeed, increase its historic orientation towards the British economy, but this implies that the North will become a replica of the other peripheral regions of the U.K., dependent on unstable and generally low-quality branch-plant employment, be it in manufacturing or services.

The alternative option, and one which has been widely touted (Bradley 1996; Gorecki 1997), is for the North to align itself more closely to the dynamic Southern economy. Provision for increased North-South cooperation has, of course, been built into the institutional arrangements arising from the Belfast Agreement, while the opportunities for such cooperation have been greatly facilitated by the movement towards the creation of a Single European Market. Economic cooperation between North and South could take many forms. One is to develop complementary economic specialisms on either side of the border, thereby facilitating economies of scale to mutual advantage. A second is to develop supply linkages between firms on both sides of the border (Gorecki 1997). Another is to pursue a joint approach to the promotion of tourism (already in train) and inward investment, thereby eliminating wasteful competition and increasing the range of attractions the island has to offer (Hamilton 1995; Tansey 1995). There has also been talk of developing a Dublin-Belfast "economic corridor," designed to combine the economic strengths of the two main urban centres on the island so as to create an enhanced business environment and therefore stimulate additional investment (Coopers and Lybrand/Indecon 1994).

However, many caveats have been expressed relating to the prospects for developing North/South economic cooperation and the potential benefits that can be derived. The most basic of these is the fact that there is so little existing interaction between the two economies, reflecting the very

different development paths which they have pursued in the past and the very different industrial structures which have emerged as a result. Thus, the Southern economy is dominated by modern, high-tech industrial sectors for whom the tiny Northern market is irrelevant, and who are very unlikely to look to the North as a source of sophisticated inputs. Meanwhile, the leading sectors in the North remain the more traditional sectors of food/drink and clothing/textiles, which have little potential for export expansion. O'Donnell and Teague (1993) also pour cold water on the argument that the creation of an all-Ireland common market of just over five million people would generate significant economies of scale for firms supplying that market.

Despite these reservations it would appear to be in the North's long-term economic interest to develop some form of creative relationship with the dynamic Southern economy, rather than adhering slavishly to the slow-growth U.K. economy (Bradley and Hamilton 1999). It appears, however, that the majority unionist community in the North still contains a deep-seated reservoir of resistance to the idea of developing links with the South. Given the almost complete absence of any recent reference to a cross-border dimension in major economic policy, it also appears that the commitment to North/South cooperation contained in the Belfast Agreement has not been effectively transmitted to the state bureaucracies on either side of the border (Hamilton 2001). Given such resistance to change, therefore, it seems likely that, rather than doing development together, Northern Ireland and the Republic of Ireland will be doing development differently for the foreseeable future.

Notes

1. Unless otherwise stated, statistical data presented in the remainder of the chapter are taken from official sources, but are not cited.

2. Proposals for a similar approach to the development of indigenous industry in the North (Clulow and Teague 1993; Hamilton 1993) have fallen on equally deaf ears in official circles.

3. In the case of the Republic of Ireland, per capita GNP (gross national product) is a more realistic indicator of average living standards than the more conventional per capita GDP (gross domestic product). GDP (the total value of production in an economy) is adjusted for movements of interest and profits to arrive at GNP, which therefore measures the wealth that actually circulates within an economy. Whereas in most countries there is little difference between GNP and GDP, in the case of the Republic of Ireland, the high level of profit repatriation by foreign firms means that, in 2002, GNP was 20 per cent lower than GDP.