Changing Patterns of International Investment: Implications for Urban Development in Ireland

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Introduction

Ireland is a country which has become extraordinarily dependent on inward investment as the main driver of its economy over the last 50 years. According to the United Nations Conference on Trade and Development (UNCTAD) "transnationality index" (a composite index based on a number of indicators of the relative intensity of inward investment), Ireland has the second highest level of penetration by foreign direct investment (FDI) in the world (after Hong Kong): its index of 63.2 compares with a weighted average of just over ten for all developed countries (UNCTAD, 2006). This reflects the fact that, unlike countries such as South Korea and Taiwan, which made judicious and selective use of FDI as an aid in the promotion of their indigenous industrial capacity, in Ireland, since the introduction of the inward investment promotion policy in the late 1950s, the attraction of inward investment *per se* has been the main plank of industrial and economic policy.

This high level of dependence on inward investment means that the Irish economy is very exposed to the inherent instability of such investment, whose spatial patterns are subject to a range of influences including the changing organisational strategies and levels of performance of trans-national corporations (TNCs), long- and short-term international and national economic cycles, technological change, and political-economic developments which affect the distribution and attractiveness of host regions for inward investment. While Ireland, through the Industrial Development Agency (IDA), has proved itself to be quite adept at adjusting to the changing locational requirements of international FDI, this has nevertheless been a costly business, as the transition between investment phases involves widespread elimination of earlier rounds of investment projects and their replacement by new rounds of investment.

Thus, with the marked exception of the pharmaceuticals sector, most of the foreign investment which was established in Ireland in the boom years of the 1960s and 1970s largely disappeared in the 1980s and the 1990s, as foreign investment shifted increasingly from labour-intensive and largely unskilled manufacturing production to more technology-intensive production requiring higher skill levels. However, today we are seeing the gradual elimination of much of this second round of inward investment also, with indications of its replacement by a new type of inward investment based on the production of services for export. This latter development has important spatial implications, due to the strong preference of the investment in question to locate in substantial urban areas.

This paper first outlines some key recent trends in international direct investment, placing particular emphasis on its growing domination by investment in service activities. While most such investment is designed to serve local markets only, a rapidly-rising segment involves the establishment of overseas operations whose service outputs are exported to other countries (what are termed "export services"). The nature and locational requirements of such activities are set out in the next section. The paper then details the types of investment of this nature which have been located in Ireland over the last twenty years, before moving on to discuss the spatial implications of the rapid growth of export services in Ireland and the kind of spatial policy required in order to maximise Ireland's ability to continue to attract a high level of inward investment of this type. Some observations on the likelihood of the required policy measures actually materialising conclude the paper.

Key Recent Trends in Global FDI

Three key developments in the recent evolution of global FDI have been of particular significance for Ireland. The first of these has been the very rapid overall growth in FDI (Table 1), averaging 12.3% per annum in nominal terms between 1990-2005, which means that the IDA has been able to tap into a rising tide in terms of its attempts to attract new investment. Counteracting this to some extent is the second key development, which refers to the emergence of major new destinations for overseas investment, particularly Central/Eastern Europe and China. In 2005, China, the Czech Republic, Hungary, Poland and Slovakia between them accounted for almost 11 per cent of global inward FDI flows, up from negligible levels in 1980 (Table 2). Rapidly rising inward investment into these countries has been accompanied by a parallel surge of outward merchandise exports (Table 3), indicating the extent to which these countries are being used by TNCs as export platforms.

Table 1. Global Stock of FDI

Year	$bn	5-year growth (%)
1980	561	
1985	814	45.1
1990	1,789	119.7
1995	2,755	54.6
2000	5,802	109.8
2005	10,130	74.6

Source: UNCTAD

The third key development in recent global FDI has been the massive growth in FDI in service activities. When FDI first emerged as a significant element of the global economy in the early 20th century, it was mainly concentrated in primary and manufacturing production, with investment in services being mainly confined to tourism and activities linked to trade and transport. In the early 1970s, services accounted for about one quarter of the global stock of inward FDI. However, by 2004 this proportion had risen to almost two thirds. The key to this rapid rise in services' share of global FDI was the growth of financial and business activities, which accounted for 57 per cent of the total stock of inward FDI in services in 2004, compared with just 26 per cent for transport, communications and trade (UNCTAD, 2006).

Table 2. Inward FDI, Selected Countries

	Inward FDI Flow 1980 ($M)	% World Total	Inward FDI Flow 2005 ($M)	% World Total
Selected CEEC*	11	0.002	27,322	2.98
China	57	0.010	72,406	7.90
TOTAL	68	0.012	99,728	10.88

Source: UNCTAD
* Czech Republic, Hungary, Poland, Slovakia

Table 3. Merchandise Exports, Selected Countries

	Merchandise Exports 1980 ($M)	% World Total	Merchandise Exports 2005 ($M)	% World Total	Av. Annual Growth Rate (%)
Selected CEEC	37,753	1.86	261,509	2.5	13.8
China	18,099	0.89	761,953	7.3	28.3
TOTAL	55,852	2.75	1,023,462	9.8	21.4

Source: UNCTAD

To an extent, the growth of services FDI over the last thirty years reflects the general growth in the importance of service activities in the global economy, but of much greater importance has been the impact of the acceleration of globalisation processes during this period. Thus, for example, the creation of global brand images has conferred on certain firms in sectors such as fast foods and fashion wear competitive advantages which have allowed them to expand internationally. Of even greater import was the spate of privatisation, deregulation and trade liberalisation which occurred internationally in the 1980s and 1990s, thereby stimulating a surge of international investment in sectors such as utilities and financial services. Another key factor in the rapid growth in services FDI in recent decades was the opening up of European Union markets for services in the early 1990s through the Single European Market process, which led to a surge of services FDI between member states, principally through the mechanism of mergers and acquisitions (UNCTAD, 2004).

FDI in Export Services[1]

Unlike recent FDI in China and Eastern Europe, the growth of FDI in services has not been accompanied by a corresponding growth in the share of international trade accounted for by services; in fact, this share has remained both small (18.8 per cent of the total in 2005) and unchanged since 1995. This suggests that most services FDI is designed to serve local markets (although it may also reflect, to an extent, under-reporting, particularly of electronically-mediated, services trade). At the same time, international services trade *has* been growing quite strongly in absolute terms, and in 2006, at $2.7 trillions, was over twice the level of a decade earlier (UNCTAD, 2007).

An important component of this growth in services trade has involved the establishment by TNCs of export-oriented service activities in overseas locations. Thus far, the bulk of such investments consists of classic 'off-shoring', where firms have been moving overseas certain activities which were previously carried out in their home countries, and which provide services for the parent corporation itself or its home market. Typical of such activities are telephone call centres, data processing and software programming. However, over time, a second category of export-oriented overseas services investments has assumed growing importance; this refers to activities which either serve other overseas units of the parent corporation, or overseas markets rather than the home country market. Typical examples of such activities are regional headquarters which coordinate the activities of multiple affiliates of the same firm; so-called "shared services centres" which provide centralised support services for such affiliates; and call/contact centres which serve multiple national markets from a single overseas location.

While the development of new information and communications technologies has been crucial in allowing such forms of overseas investment to materialise, it does not explain either why such investment occurs or where it is located. Clearly, the search for cheaper (and frequently higher-quality) labour has been a major driver of this form of investment. The need to get access to supplies of skilled labour (which is becoming scarcer relative to demand worldwide) is a factor of growing importance which is linked to the rising sophistication in the kinds of services activities (such as financial services, software development, R&D and various corporate administrative functions) which TNCs are establishing overseas.

Rationalisation and centralisation of service functions with a view to securing economies of scale within the global networks of large TNCs has also been an important driver behind the establishment of new overseas services activities, with the companies concerned frequently moving to a completely new greenfield site when establishing such rationalised operations. Deloitte (2004) also point to the desire of some firms to maintain round-the-clock functioning of certain services (e.g. financial services, R&D projects) by locating replica operations in different time zones so that the activities in question are always in operation.

The actual choice of locations for overseas investment in export-oriented services is considerably more constrained than in the case of export manufacturing by the crucial role of language compatibility in most of the services in question, and by

[1] Much of the material in this section is derived from UNCTAD (2004).

their generally more demanding educational and skill requirements. Other important locational requirements include the availability of a good telecommunications system, the time zones in which prospective destinations are located, and the prevailing political and business climates (Apte and Mason, 1995). Thus, in 2001, just four countries – Ireland, India, Canada and Israel – had captured 71 per cent of all FDI in export services. An important factor in this high level of spatial concentration has been the strong tendency for initially-favoured investment locations to attract further repeat investments in export services. While such repeat investments allow firms to minimise the costs and uncertainties associated with searching out potential new investment locations, perhaps a more important factor has been the way in which TNCs which initially located relatively low-skill activities in certain countries have subsequently become aware of the availability of substantial reservoirs of higher-skill personnel in the same countries, leading to follow-on investments in more sophisticated activities. This gives rise to the "went for cost, stayed for quality" phenomenon which Dossani and Kenney (2004) identified in the case of India and which has also been a significant factor in the upgrading of export service activities in Ireland.

Growth of Irish Service Exports[2]

Ireland has experienced very rapid growth in service exports in recent years. According to Central Statistics Office (CSO) data, in 2005 services accounted for one third of total exports, twice their share in 1998 (when the CSO first began systematically to publish data on Ireland's service exports). However, the CSO data understate the importance of service exports, in that they exclude software exports recorded on computer disks which are regarded as manufactured products (exports of the same software via download are regarded as service exports) (Forfás, 2006c). If one treats this very substantial activity as a service rather than as manufacturing, the services share of total exports rises to 48 per cent of total exports in 2006, compared with one quarter in 1998[3].

This adjustment further accentuates Ireland's already high level of penetration of global service export markets: according to UNCTAD data, in 2004 Ireland was the world's 13th largest exporter of services with a 2.2 per cent share of global service exports. Including Recorded Computer Media raises this share to 2.8 per cent, compared with a 1.1 per cent share of global merchandise exports and an 0.45 per cent share of global GDP. Irish service exports are dominated by just three sectors, computer services (including software), financial services and business services, which between them accounted for 87 per cent of the total in 2006 (Table 4). Of these, in turn, computer services are by far the most important element, reflecting Ireland's current status as the world's leading exporter of software products, despite the country's tiny size in global context. By contrast, transport and

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[2] Much of the information in this section is derived from newspaper reports and company websites. The sources for this information are not cited, but may be obtained on request from the author.

[3] Exports of Reproduced Computer Media (NACE category 2233) have been estimated from this sector's share of gross output of the larger Reproduced Recorded Media (NACE 223) sector (of which it is by far the dominant element) and total exports of the latter sector, as the CSO Census of Industrial Production does not give separate data on the value of Reproduced Computer Media exports.

communications and tourism and travel – traditionally the leading components of global trade in services – between them only accounted for just over ten per cent of Ireland's service exports in 2006.

While indigenous firms have made a significant contribution to the growth of service exports, the great bulk of this growth has been accounted for by foreign firms. According to Forfás (2006a), in 2005 foreign firms accounted for 92 per cent of all exports by international (i.e. export) services firms. On the one hand, this actually understates the importance of the foreign sector, as these figures exclude the many primarily manufacturing foreign firms which are also engaged in export service activities. On the other hand, it is known that the output and sales figures of foreign firms in Ireland are exaggerated by transfer price manipulation designed to derive the maximum advantage from Ireland's low rate of corporation tax (Honohan et al., 1998). In employment terms, the dominance of foreign firms is not so pronounced, with foreign international services firms accounting for two thirds of all employment in such firms in 2006 (Forfás, 2007). Again, this does not include service exports by manufacturing firms. It is also likely that, even allowing for transfer price manipulation, foreign firms portray higher productivity levels than indigenous firms due to larger scale of operations and use of more advanced technology compared with indigenous firms. Overall, therefore, it is likely that foreign firms account for at least 80 per cent of all export service activity in Ireland.

Table 4. Ireland's Export Services by Category, 2006.

Service Category	**Share of Total Service Exports (%)**
Computer Services*	43.0
Business Services	23.1
Financial Services	21.0
Tourism & Travel	6.3
Transport & Communications	4.1
Other	2.4

Source: Central Statistics Office
* Includes Reproduced Computer Media

The Industrial Development Agency (IDA-Ireland, henceforth simply 'IDA') first introduced a specific programme for attracting foreign services projects in the early 1980s, following the extension to "international" (i.e. export) services of the ten per cent corporation tax rate which then applied to manufacturing industry. Apart from this tax incentive and the availability of well-educated but cheap English-speaking labour (as well as Ireland's cultural and political compatibility with the USA, the main source of inward FDI in services), another important attraction which Ireland was able to offer was the modern telecommunications system which was installed in the country during the 1980s. The IDA's initial targets were data entry/processing activities (whereby, for example, claims forms of American insurance companies were flown to Ireland for entry, on-line, to these firms' home computers outside of US office hours (Breathnach, 2002)) and the emerging software sector.

The evolution of the Irish software sector provides a good example of the process of technological and functional upgrading which has typified the main destinations of overseas FDI in export services (UNCTAD, 2004). While the IDA enjoyed early success in securing investments by Lotus (producer of the first commercial spreadsheet application) in 1983 and Microsoft in 1985, initially the activities of these and similar foreign software firms were confined to printing of manuals, duplication of disks and packaging of these products. In the late 1980s, localisation (i.e. adaptation of software developed in the USA to the specific peculiarities of European national markets) was introduced to Ireland, but this mainly involved translation activities.

Eventually, many of these initial software projects introduced original software development into their Irish operations although Microsoft (which employed 2,000 people in Dublin at the end of 2006) remains largely involved in localisation. However, original software development activity has mainly emanated from two other sources. One of these was software firms coming to Ireland in the 1990s (e.g. Oracle, Netscape and McAfee) which included development *ab initio* in their activities; the other was non-software firms which added software development to their existing activities. Thus, IT manufacturers Hewlett Packard and Ericsson both have major software units in Ireland (ironically, in both cases the manufacturing activities from which these units sprang have ceased operations) while a number of financial services firms (including Fidelity Investments, Natwest and Prudential) have also established substantial software operations in Ireland. In 2005, a total of 24,000 people were employed in the Irish software sector, of which one half were employed in indigenous Irish firms which are themselves strongly export-oriented (two thirds of their sales going to export markets in 2005).

A further major step in the development of Ireland as a base for service exports was the establishment, in 1987, of the International Financial Services Centre (IFSC) in Dublin. This measure was designed to attract to Ireland a share of the rapid growth in international financial services which was occurring at the time as a result of the growing deregulation of financial regulatory regimes. By 2004, some 450 financial services firms were operating from Ireland under the IFSC programme, providing a broad range of services including banking and insurance, asset financing/leasing, corporate treasury management, asset management, fund administration and securities trading. By end-2006 over 22,000 people were directly employed in these activities, with an additional 5,000 jobs provided by IFSC firms in support activities such as software development, customer contact and back-office administration. There has also been a considerable spin-off to local firms which provide auditing, accountancy, stockbroking and legal services to the IFSC, to which should be added lower-grade services such as cleaning, catering and security (Deloitte, 2004).

In the early 1990s the IDA launched a special programme to attract to Ireland some of the "pan-European" telephone call centres which many TNCs were setting up as part of the rationalisation of their European operations arising from the introduction of the Single European Market in 1993. These were centralised centres, frequently located on greenfield sites, which replaced the multiple national call centres which these firms had operated previously. By 2000, some 60 such centres had been established in Ireland, employing a total of 12,000 people (Breathnach, 2000). There was considerable criticism of the IDA for targetting this particular sector on the grounds of the poor quality of jobs which it tended to create and also because of doubts concerning its long-term sustainability in the face of Ireland's rapidly-rising cost base and the challenges to telephone call centre employment arising from the growth of on-line reservations and information provision and the development of voice recognition technology. However, the IDA argued that its long-term strategy was to encourage incoming call centre firms to diversify subsequently into more sophisticated activities providing more high-quality employment.

This strategy appears to have worked quite well. Many call centre operations have added on additional functions, thereby creating so-called "shared services centres" which provide a range of support services for affiliate firms operating throughout Europe and elsewhere. Such services typically involve invoicing, payroll, legal services, data processing, IT services and logistics management. As with software, many established foreign firms which did not previously operate call centres have since added shared services functions to their Irish operations. Thus, Hewlett Packard's manufacturing plant in Leixlip, County Kildare also houses substantial IT and financial services units servicing the firm's customers throughout Europe. There has also been a number of cases of shared services centres being established *ab initio* by new inward investors. Thus, management consultancy group Andersen Consulting established a shared services centre in Dublin in 1999 which provides financial processing, procurement, IT development and support, and human resources administration services for the firm's branches in 16 European countries.

A further development of this trend has been the establishment by many firms of their entire European operations headquarters in Ireland. One of the first firms to do this was Citigroup in 1996; this operation now employs 1,200 people, one half of whom have higher education qualifications. Other examples include Symantec (producer of the Norton suite of security products) whose European Operations Centre at Blanchardstown in Dublin employs over 900 people in software localisation and development, customer services and support, IT services, transactions processing, procurement, distribution, and financial management for the firm's other European operations; and Oracle (the world's second largest software firm), whose facility in Dublin employs almost 1,000 in telemarketing, technical support, IT services, business consultancy, and financial processing (accounting, purchasing, licensing, expenses administration) for Oracle's European, Middle Eastern and African (EMEA) operations, in addition to the firm's core business of software development and localisation.

Spatial Implications of the Growth of Export Services

The rapid growth of inward investment in export services and in their share of both inward FDI and exports has profound implications for spatial patterns of development within Ireland. This is because of the size of the sector (employment in which reached 78,000 in 2006 – not counting several thousand more engaged in export services in firms whose business is not primarily in export services – twice the level in 1998 (Forfás, 2007)), the generally high quality of the jobs provided in the sector, and – above all – the fact that employment in the sector is very strongly concentrated in the Dublin region. In 2005, Dublin, with a 28 per cent share of the national population, accounted for three quarters of all employment in international services firms, with the proportion rising to over 80 per cent in the case of foreign firms (calculated from data in Forfás, 2006b; 2006c). This is a much higher level of concentration than for manufacturing industry: in 2005, 30 per cent of employment in agency-assisted manufacturing firms was located in the Dublin and Mid East regions (a number of major manufacturing plants are located just over the Dublin border in adjoining counties), a proportion which rises to 32 per cent in the case of foreign manufacturing firms.

There is a number of reasons for this high level of spatial concentration in export services activities, including:

1. The need for a well-developed office infrastructure, including availability of office-type accommodation and a wide range of office support services, including in particular IT support services (given the central importance of IT for the types of service activities which have been locating in Ireland).
2. The need for access to a high-capacity and resilient IT infrastructure which tends to be only available in major urban centres.
3. The need for access to supplies of qualified workers who comprise a very high proportion of employment in export services activities. The workers employed in these activities tend to have a very young age profile, and such people have a very strong tendency to gravitate to the largest cities, and indeed to the central areas of these cities, as reflected in the massive development of apartment accommodation in central Dublin over the last 15 years.
4. The fact that, up to 2000, firms obtaining a licence to operate as part of the IFSC had to be located in Dublin.
5. The strong clustering effect in the indigenous software industry which promotes spatial proximity between firms in the industry (O'Gorman et al., 1997).

Irish policy makers have been finding it hard to come to grips with the implications of this trend toward spatial concentration in what is now one of the key drivers of employment and export growth in the economy. Since the inward investment policy was initially introduced in the late 1950s, there has been a strong orientation in terms of spatial policy towards promoting the maximum dispersal of inward investment projects in Ireland. This policy reached its zenith in the form of the IDA's regional industrial plans in the 1970s which pursued – with considerable success – an almost extreme form of industrial dispersal (Breathnach, 1982). This was seen by politicians at the time as a godsend, as the IDA appeared capable of parachuting a new industrial project into any given part of the country almost at will, which was a huge political advantage for ruling governments, particularly at election time.

Ultimately this policy was unsustainable, as it generated an industrial structure with few local roots and therefore no mechanism for regeneration. Indeed, having overseen this policy for over 40 years, in its 2003 *Review of Industrial Policy and Performance*, the Department of Enterprise, Trade and Employment (DETE) frankly acknowledged that this approach had been a mistake:

> *"In many cases...the enterprises established in rural areas were heavily dependent on low labour costs and were not rooted in any more lasting sources of comparative advantage. While they gave a boost to their local economies during their time here, this did not offer a viable basis for long-term development...the development of concentrations of similar and related enterprises in particular areas was frustrated by administrative decisions that new businesses should be dispersed around the country rather than locate in centres with an established presence in their particular sector. While well-intentioned, this went against all the tenets of cluster formation and did not contribute in the long run to either national or regional development."*
> (Department of Enterprise Trade and Employment, 2003: 167-168)

This apparent espousal by the DETE of the cluster concept is also a new departure. Although the so-called "Culliton Report" on industrial policy (Industrial Policy Review Group, 1992) had recommended that the development of indigenous industry should be built around the promotion of the kind of industrial clusters advocated by Porter (1990), this recommendation was subsequently largely ignored in official statements and documents on industrial policy (Breathnach, 1997). Presumably the DETE's acceptance of the arguments in favour of clustering was related to the Irish government's endorsement of the objectives of the National Spatial Strategy (NSS), prepared within the Department of Environment and Local Government (DoEHLG) and published in November 2002 (DoEHLG, 2002).

The NSS may be seen as a response to the increasing spatial concentration of population and resources which has been a feature of Ireland's phase of rapid economic growth beginning in the early 1990s and strongly driven by a surge of inward investment of which, as we have seen, investment in export services comprises a large and growing share. According to the NSS, if prevailing trends continued, 80 per cent of all population growth in Ireland in the period up to 2020 would occur in the Greater Dublin Region. This could have substantial repercussions for national as well as regional economic development, as growing congestion in the metropolitan region, with its associated economic, social and environmental costs, could restrict the inflow of new foreign investment, unless measures to enhance the attractiveness of alternative destinations for such investment within Ireland are implemented.

The NSS acknowledges the strong tendency towards urban concentration in modern advanced economies based, *inter alia*, on the clustering imperative among high-tech firms, the preference of highly-skilled workers to live in urban areas and the growing role of services in the modern economy, both as end-products in themselves and as inputs to other sectors. Strong urban centres are therefore seen as having a key role to play in attracting the kinds of internationally-mobile investment for which Ireland is competing in the 21st century. Accordingly, the NSS advocates the selective development of a small number of so-called "gateway" cities which would act as conduits through which investment would be attracted to the regions in which these cities are located. Such development would include enhancing the physical infrastructure and environmental amenity of the selected centres, the range and depth of health, education, cultural and business services available in these centres, and their external connectivity, and ensuring the availability of adequate supplies of skilled workers and serviced development land.

The NSS envisages different gateways developing around particular sectoral specialisms based on established regional strengths, including chemicals/ pharmaceuticals in Cork, information and communications technology in the Mid West, food in the North East, and health care and medical devices in the Midlands. These all refer to the manufacturing sector and, while there are passing references to software and financial services, it is clear that the idea of export services acting as a regional economic base (at least outside Dublin) had not crystallised in the minds of those who prepared the NSS. Given that services now account for almost one half of total exports and that their relative role in the economy is expanding rapidly, it would appear that the NSS needs to be augmented by the formulation of specific measures for promoting the location of export services in gateway cities outside of Dublin.

That said, there is no doubt that the idea of strengthening the upper levels of the Irish urban system as a prerequisite for the further development of information-age economic activities is, in principle, a good one. However, the obstacles in the way of the NSS proposals actually being fulfilled are daunting. Principal among these is the lack of commitment to the implementation of the NSS on the part of the Irish government and at least some of its agencies. Thus, the National Development Plan for 2000-2006 included no specific measures for the development of the gateway cities, even though this was identified in the Plan itself as a "key component" (Government of Ireland, 1999) of the government's regional development policy, and even though the inclusion of such measures for the remaining Plan term was recommended in the Plan's mid-term review (Fitzgerald et al., 2003).

A similar neglect of the NSS is apparent in the report of the Enterprise Strategy Group (2004), established in 2003 to draw up a medium-term strategy for enterprise development in Ireland, and among whose terms of reference was included the requirement to take into account the desirability of regional balance as set out in the NSS. This report devotes just a single paragraph to the NSS, accompanied by a rather tokenistic call on the government to prioritise infrastructure investment in the proposed gateways. Even this, however, is an improvement on Enterprise Ireland's (the state agency for the promotion of indigenous enterprise) strategy statement for 2005-07 (Enterprise Ireland, 2005), which makes no reference to the NSS at all.

It is clear that there is a lack of commitment to the NSS within government political circles also. This was most clearly demonstrated by the programme for the 'decentralisation' of government offices launched in 2003 by the then Minister for Finance, Charlie McCreevy. It is expressly stated in the NSS that "The Government will take full account of the NSS in moving forward the progressive decentralisation of Government offices and agencies" (Government of Ireland, 2002). However, the proposals announced by Mr McCreevy did no such thing: the 10,300 civil service jobs to be relocated were to be distributed over 46 different locations, with only 1,300 earmarked for the gateways identified in the NSS. When challenged on this, Mr McCreevy retorted that: "The National Spatial Strategy and decentralisation are not the same thing. It was never ever linked to the National Spatial Strategy" (*The Irish Times*, December 9, 2003, 7). This is clearly at odds with what is stated in the NSS, and indicates that the pursuit of the NSS objectives is not a priority at very high levels in the Irish government.

The only element of the Irish state's development apparatus where a real commitment to the NSS is evident is the IDA: indeed. it could be argued that the IDA has been the main driving force behind the gateway thinking which forms the core of the NSS (Breathnach, 1999). With the onset of virtually full employment in Ireland in the late 1990s, the IDA shifted its priorities towards enhancing the quality of jobs created in the projects which it supported, and achieving the maximum regional balance in the distribution of these projects. The agency quickly became aware that achieving the latter objective was crucially dependent on strengthening the urban structure outside Dublin: "The need for a critical mass of suitably qualified talent, supporting infrastructure and sophisticated business services tends to draw investors towards cities and regions of scale" (Industrial Development Agency, 2007, 8).

Accordingly, in the late 1990s, the IDA carried out a major audit of Ireland's regions based on levels of higher education provision, infrastructural adequacy, skills availability and the composition and competitiveness of the existing enterprise base. The agency then drew up an enterprise development plan for each region built around the sectors that best matched the capabilities of that region, designating in each region a town or city which would become the focus for enterprise development in the region and identifying the infrastructural and other constraints on development that needed to be addressed if the plan were to be implemented successfully (Department of Enterprise Trade and Employment, 2003). The IDA, therefore, anticipated the key tenets of the NSS several years in advance (and, in fact, itself used the term "gateways" to refer to the focal towns around which its regional strategy was to be based).

In furtherance of this policy, in 2001, the IDA undertook a major reorganisation which saw several of its sectoral offices being relocated from Dublin to provincial centres (e.g. international services to Sligo, healthcare to Athlone and information & communications technologies to Waterford), along with the establishment of a Regional Development office in Athlone. The IDA has been working with local authorities, third-level institutions, and other groups and organisations in order to strengthen the business environment in the different regions, while itself building up land banks and developing business and technology parks in the gateway centres and other regional towns.

The fact that the IDA has been to the forefront in pursuing the development of gateway centres in the Irish regions suggests that balanced regional development in Ireland is essentially seen by the Irish government as a matter of achieving a better regional spread of inward investment. It is instructive, and perhaps disturbing, that Enterprise Ireland clearly sees itself as having little or no role to play in the NSS, which is completely ignored in the agency's recent strategy statements and annual reports. There is a certain irony in this, in that the establishment of (what is now) Enterprise Ireland as a separate agency with responsibility for the development of indigenous enterprise (the IDA had previously been responsible for the promotion of both indigenous industry and foreign investment) was originally proposed by the Culliton Report partly on the grounds that this agency would be the vehicle for cultivating industrial clusters at regional level. However, while there are some passing references to clusters and networks in Enterprise Ireland's most recent strategy statement (Enterprise Ireland, 2005), no coherent regional strategy is contained in this statement, which is primarily focused on developing the ability of indigenous Irish firms to compete in global markets.

The development of successful regional gateway centres in Ireland will be a multidimensional process, requiring a high level of local integration of various economic and institutional actors, including local authorities; national infrastructure providers; education, training and research institutions; suppliers of business services and other inputs; and both foreign and indigenous exporting firms. However, while the IDA is actively promoting such a coordinated approach to gateway development, it does not appear to be on the Enterprise Ireland agenda. Indeed, the cultivation of linkages between indigenous and foreign firms, which one would expect to be an important element in the promotion of indigenous enterprise in a country where foreign investment plays such a major role, does not appear to be on this agenda either. In this light, one wonders whether it would be advisable to reconsider the decision made in the early 1990s to create separate agencies for the promotion of inward investment and indigenous enterprise, as this may now be having the effect of creating barriers to the kind of integrated approach necessary in order to realise the regional gateway centres envisaged in the NSS.

Conclusion

Overseas investment in export-oriented information-based services is growing rapidly and, in the view of UNCTAD (2004, 147), "may well mark the next stage in the evolution of the international division of labour." Ireland has been the world leader in securing this form of investment which is playing an increasingly central role in the country's economic development, with inward investment in the manufacturing sector faltering in recent years. The prospects for Ireland continuing to secure a major share of such investment seem bright. Deloitte (2004) has reported very favourably on Ireland's ability to further enhance its standing as an important actor in the international financial services sector, particularly through the development of niche product areas. Ireland is already the world's leading centre for the export of software products. In terms of diversifying Ireland's export service base, Forfás (2002) has identified the digital content industry as a rapidly-growing sector in which Ireland can secure a foothold in key niche areas. In this respect, an important development has been the establishment in Ireland in recent years of the European operational headquarters of a number of leading Internet services companies, including Google, eBay and AOL. In line with the general tendency for firms which establish export services activities overseas subsequently to diversify and upgrade these activities, there is a strong possibility that, once established in Ireland, these firms will proceed to add such key creative functions as website design and content production to their Irish operations. The IDA has also recently introduced, with some success, measures to encourage TNCs to locate R&D functions in their Irish operations.

However, Ireland's ability to exploit the opportunities arising from the future growth in international investment in export services will be crucially dependent on the creation of a more balanced urban structure which will allow centres other than Dublin to attract such investment in significant quantities. The National Spatial Strategy provides a framework for achieving this but, five years after the NSS's launch, progress towards its implementation has been minimal. The National Development Plan for the period 2007-2013, launched in early 2007 (Government of

Ireland, 2007), does appear to give serious attention to the implementation of the NSS. The Plan provides for an annual report on progress in the implementation of the Plan which is to include indicators on NSS implementation at both gateway and regional authority level which will "feed" into the subsequent allocation of government funding for particular projects under the Plan. The Plan also requires the local authorities in the regions to reach mutual agreement on key issues relating to the implementation of the NSS and to draw up land use and planning strategies which 'complement' the NSS. In addition, a specific Gateways Innovation Fund is to be introduced in 2008 to fund gateway development initiatives not otherwise funded under the NDP. However, this is to be operated on a pilot basis until 2010 which means that no dedicated mainstream funding mechanisms to support gateway development will be implemented until, at the earliest, halfway through the plan period originally envisaged by the NSS.

The National Spatial Strategy seeks to create an urban structure which can both maximise Ireland's ability to attract inward investment and secure a much more balanced regional allocation of this investment than has been the case in recent years. However, it also requires a spatially selective approach to the allocation of public funding which runs directly counter to the cultures of short-termism, populism and localism which permeate the Irish political structure. The degree to which real progress is made towards the achievement of the NSS objectives during the course of the current National Development Plan will be a good test of the extent to which the Irish political process has become capable of placing broad national needs at the top of its agenda.

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