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GLOBALIZATION, THE "NEW TIGERS" AND THE END OF THE DEVELOPMENTAL STATE? SOUTHEAST ASIA AND THE CELTIC TIGER

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Globalization, the 'new tigers' and the end of the developmental state? Southeast Asia and the Celtic Tiger

One of the most important and popular subjects of the recent literature on development in the semi-periphery has been the 'developmental state' (Evans 1995, Kohli 1994). A major reason for this has been the state's role in East Asian development where, uniquely for the post-WWII period, several countries achieved upward mobility within the world-system from peripheral to semi-peripheral and, possibly, even core status. There is disagreement about the origins of this 'success' among the East Asian 'tiger economies'. Yet most experts give major credit to their states, who effectively controlled markets to achieve industrialization and rapid growth (for a summary of arguments, see So and Chiu 1995).

Does the rise of 'new tigers' in Southeast Asia and elsewhere challenge the concept of developmental states? 'New tigers' have achieved rapid growth primarily on the basis of neoliberalism rather than *dirigisme*. This appears to support arguments that relate rapid growth to a country's willingness to integrate optimally into world investment and trading networks, relying on market signals and reducing rather than enhancing the economic role of their states. The new 'tigerhood' is tied more with maximum integration into regional and global investment networks than with strategic policies to manipulate markets and private business decisions in order to develop an integrated indigenous economy that can export. This neoliberal route to rapid growth is apparent not just in Southeast Asia since 1985, but also in non-Asian tigers such as Chile, Ireland, and even Mauritius and

Botswana (World Bank 1997, pp.46-48). In this article, I will examine the nature of new tigerhood in Southeast Asia and Ireland in order to assess whether that experience spells the end of the developmental state or, perhaps its fundamental transformation.

THE 'GLOBALIZATION PROJECT' AND THE DEVELOPMENTAL STATE

In a recent book, Philip McMichael (1996) analyses how the 'development project' of the 1950s and 1960s gave way to a 'globalization project' which prevails to this day. Where the first project advanced the hope of national development through economic management, the second integrates regions into the world market in ways that are primarily determined at the global level. Where the first gave hope for progress through market-regulating 'developmental states', the second emphasises strict adherence to *self*-regulated markets. Where the first promised social entitlement and welfare as an aspiration, the second promised only the right to participate in the world market.

The old 'developmental project' viewed growth-related development with relative optimism. There was widespread agreement that *nations* could follow the western route to development through industrialisation. Orthodox modernisation theories assumed that societies could become 'modern' by acting in modern ways. In terms of the economy, if 'enterprising men' were allowed to come forward and forego current pleasure for future gain, their behaviour would eventually but inevitably provoke a 'take-off to self-sustained growth' for each country around the globe (Rostow 1960). Many Marxists and other critics agreed in principle with the desirability and universal possibility of industrialisation but they argued that the behaviour of developed capitalist states and firms barred other states from developing. Therefore, late developers required special tools: interventionist states to overcome barriers, or a new international order to level the playing field.

Both approaches held that national development through industrialisation was possible and desirable.

'Globalization' presented new challenges to critical development theory. The old 'open door' policy for transnational investors from the core often required US force to police it. Now, after a decade of disciplining through debt and disinvestment in the 1980s, less developed states themselves agree that markets provide the most rational way of distributing resources and allocating economic roles. More and more countries 'voluntarily' joined the GATT and subsequently came under the new rules of the World Trade Organization including, most crucially, the protection of Northern technology under the guise of 'intellectual property'. Thus, McMichael and others (Arrighi et al. 1993, Arrighi 1995) argue that countries do not participate in the 'globalization project' as nations that are inevitably on their way to modernity. Rather, they participate as pragmatic and strategic actors in a much more restricted game that is governed by free trade, specialising in what you can do without the aid of protection, privatisation, and 'living within ones means'.

How does this shift correspond to the changing role of states in development? Peter Evans (1995) provides one of the most appealing accounts of the *developmental state* in his work on 'embedded autonomy'. His central contention is that the role of states in development is not one of 'how much' but one of 'what kind'. In particular, successful developmental states are those that not only have a degree of autonomy from private capital but which also have embedded within them a 'concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies' (1995, p.12). This embeddedness not only provides the state with consistent information on the problems of development and how to adapt policies to meet them. It

also gives the state effectiveness relative to social actors so that it can successfully implement its policies.

In more concrete terms, however, Evans analyses the *kinds* of policies that developmental states pursue. First, they do not just police the development process, they *promote* it. The developmental state does more than provide infrastructure. This may mean that the state steps in directly where private capital is 'incapable of successfully sustaining the developmentally necessary gamut of commodity production', although Evans does not see direct involvement in production as definitive of the developmental state (1995, p.13). More importantly, the developmental state not only tries to assist in the emergence of new entrepreneurial groups, it also controls those groups to assure that they continue to adapt to changing conditions. Here, Evans distinguishes between 'midwifery' and 'husbandry'. A 'midwife' state assists in the emergence of new entrepreneurial groups. But 'husbandry' involves prodding and supporting these groups in order to move them in certain directions that are dictated by developmental strategy – for instance, moving into key sectors or shifting from home production to exports.

This distinction between 'midwifery' and state 'husbandry' of capital is particularly important if we distinguish between developmental regimes that depend on foreign capital and those that foster indigenous entrepreneurship. New entrepreneurial groups can be 'introduced' in different ways. Characteristically, indigenous capital is introduced through one form or another or state protection and subsidy, particularly in its infant stages. This may take place within a given context, like regional subcontracting networks or joint ventures. Alternatively, the 'midwife state' may assist in the emergence or attraction of TNCs through foreign direct investment (FDI). This often involves the opposite policies of free movement of money and goods.

Once an entrepreneurial class is introduced into a country, however, the state may take it as given or it may attempt to influence its behaviour. The developmental state, as 'husband' to the developmental process, views capital as malleable and attempts to shape its actions by state policies. Yet TNCs, as relatively independent actors, demand to be taken as given and respond poorly to changing policies of host states (instead, they crave stability and consistency). Local capital, on the other hand – particularly if it owes its very existence to a sponsoring developmental state – must be more responsive to local policies. As Evans notes, the South Korean state created a base of indigenous firms through successful husbandry, including its use of selective tariffs to protect infant sectors. But it then shifted into the truly developmental role of husbandry, 'cajoling and assisting private entrepreneurial groups' in hopes of meeting the challenges presented by changing global conditions (1995, pp.14,140-46). TNCs, on the other hand, resist 'cajoling' and thus would appear to be inimical to the developmental state role of 'husbandry'.

It is worth analysing Evans' conception of the developmental state within the context of the World Bank's conceptualisation of 'the state in a changing world', since the latter is probably the most credible statement of the appropriate state role in development from the establishment point of view under neoliberal globalization. The World Bank (1997), distinguishes between 'good' government activities in social welfare and reducing inequality and 'bad' government activities (usually, when it tampers in enterprise but also when it excludes private participation in welfare activities). While the Bank admits the role of East Asian states in their regional development, it also insists that previously effective governments may be no longer effective in the age of globalization.

In its most concise formulation, the World Bank asserts that the role of the state is to provide 'the goods and services – and the rules and

institutions – that allow markets to flourish and people to lead healthier, happier lives'. In other words, the state's role in economic and social development is *not* 'as a direct provider of growth' but, rather, 'as a partner, catalyst, and facilitator' (1997, p.1). The state is not an active actor and shaper of the development process, but is 'responsive to the parameters of a globalized world economy' (1997, p.2). The state plays its role of facilitator under globalization primarily by delivering fundamental 'public goods' such as property rights, roads, basic health and education. All of this entails the state 'reducing' and 'diluting' its role so that it does not overreach its 'capability' or 'efficiency'. It involves self-regulating markets and entrepreneurs, flexibility, and decentralised public (i.e., private capital) participation in economic and social affairs, including the provision of social services. 'Public investment' is more or less equated with infrastructure (1997, p.42). Most importantly, the state provides macroeconomic stability, avoids price distortions, and liberalizes trade and investment. It must do this because 'high rates of inflation...adversely affect growth'; 'price distortions impede growth'; and 'maintaining liberal trade, capital market, and investment regimes is...essential for growth'. The Bank explicitly cites Chile, Mauritius, and Botswana – 'new tigers' all – as places where state got this formula right (1997, pp.46-48).

On its surface, the World Bank's conception of a 'good' state appears to be incompatible with Evans' conception of a 'developmental' state. First, the World Bank clearly limits the role of 'good' states under globalization to 'policing' rather than 'promotion'. The state's sole role is to provide the necessary infrastructure for development, and then to leave private capital and markets alone. While private capital may be incapable of successfully sustaining development under the 'globalization project', the state has no role in enhancing this capability, as it might have under the old 'development project'. Moreover, the state is limited to the role of 'midwife'. It can help in

the emergence of new entrepreneurial groups by creating modern legal institutions, property rights, physical and social infrastructures, privatising, and liberalising trade and investment. But it has no role of 'husbandry' apart from the perfection of these infrastructural institutions as global conditions may change. The *ideal* of globalization, then, is incompatible with developmental states. But does this ideal correspond to the practical reality of 'successful development' under globalization. To analyze this question one must compare the origins of 'success' in the 'new tiger economies' to those of the original tigers.

OLD TIGERS AND DEVELOPMENTALISM

Experts widely agree that the original four 'tiger economies' included South Korea, Taiwan, Singapore, and Hong Kong. All four achieved rapid and sustained economic growth over several decades, associated with even more rapid growth of manufactured exports. Although the World Bank (1993) tried to attribute economic growth to the four tigers' strict 'market friendly' approach, most experts found that the East Asian tigers 'succeeded' primarily because their states *intervened* in their economies. Their states intervened heavily to promote local industry, exports and economic growth; they oppressed their populations and popular movements to control wages and maintain stability; they actively controlled markets through public policy by manipulating exchange rates and prices; they selectively protected key economic sectors with tariffs and import controls; and they developed state-owned industries (Lim 1983, Grice and Drakakis-Smith 1985, Huff 1995). State policies also encouraged rapid demographic transitions to highly urban, low-fertility, low-mortality societies; dynamic agricultural sectors; high levels of education and training; and rapid growth in personal savings and investment (Page 1994, pp.616-17). According to Amsden (1994, p.627), the East Asian states *created* competitiveness through 'pervasive intervention'.

Along with Japan, these states have been largely responsible for the popularity of the concept of the *developmental state* among sociologists and political scientists. They certainly fit Evans' (1995) conception of developmental states insofar as they went beyond simply providing infrastructure or introducing groups of entrepreneurs, assumed the limitations of private capital, cajoled capital into desired activities, and even became directly involved in enterprise.

Other late industrializing states intervened in their economies with much less success. Most encountered strong opposition from global forces who used coercive programmes like structural adjustment and tied lending to 'persuade' them to liberalize their economies (George 1992). For geopolitical reasons, the East Asians were relatively immune from such coercion (Cumings 1984, So 1995). Moreover, East Asian states intervened effectively where other states failed. Some experts credit the special nature of Japanese colonialism for transforming 'corrupt and ineffective' East Asian states into highly authoritarian but effective developmental states, while clearing out class interests that corrupted post-colonial states elsewhere (Kohli 1994).

It has also been argued that East Asian states achieved success because Japanese expansion differed from Western imperialism. Hill and Fujita (1995) argue that Japanese corporate investment strategies differed in major ways from those of US capital and that those differences affected developmental outcomes in the countries they integrated into their regional divisions of labour. Oligopolistic US firms tried to maintain profits by secretly protecting technologies and products, by controlling markets and by cheapening labour costs. Japanese corporations competed by constantly upgrading their products and ways of producing them, that is, by *shortening* product life-cycles in order to capture monopoly profits from introducing new products and production processes.

As Japan concentrated in higher tech industrial activities, it shed its standardised activities to the East Asian countries in its wake. Akamatsu Kaname called this the 'flying geese' model of regional development: the countries of Asia formed an inverse 'V' formation, like wild geese, with Japan in the lead. As the leading countries advanced, they brought along sets of 'new industrialisers' behind them. Later, as the East Asian economies took on new activities, they in turn shed their older activities to Southeast Asia.

This Japanese 'shedding' used different corporate structures from the west. The typical western multidivisional firm (Chandler 1962) moves abroad through fully- or majority-owned corporate affiliates to gain access to raw materials, cheap labour, and/or markets. The resulting 'global corporation' has many subsidiaries that comprise many links of one or several commodity chains, selling inputs to each other and assembling products for markets throughout the world. Japan, however, is at the centre of a regional 'multilayered subcontracting system' that expanded prodigiously into East Asia and Southeast Asia since the 1960s (Arrighi et al. 1993, p.49). Where the typical western firm sources the vast majority of its inputs internally through its subsidiaries, major Japanese corporations like Honda or Mitsubishi source most of their inputs externally from hundreds of small and medium-size firms. They, in turn, subcontract from thousands of smaller firms and so on down the line to tens of thousands of the smallest producers (Arrighi et al. 1993, p.51). As the larger Japanese firms embarked on joint ventures and subcontracting agreements in Asia from the mid-1970s onwards, they induced new local suppliers in East Asia. As I have already argued, such indigenous entrepreneurs were more open to state 'husbandry' than TNC subsidiaries would have been because they were more *embedded* into their local social economies.

Japanese investments were also far more agglomerated geographically than western direct investments. Arrighi et al. (1993, p.60)

suggest that this was particularly important to the four East Asian tigers, who received more than half of Japanese investments in textiles and 80 per cent in electronics in the 1960s and 1970s. Western direct investments were much more dispersed. Moreover, Japanese investments developed indigenous economies because they created networks of linked economic activities among domestic producers.

This pattern of industrial upgrading and 'shedding' encouraged technological learning and upgrading in larger Korean *chaebol* like Samsung and smaller companies in Taiwan and Hong Kong (Hobday 1994a, 1994b). This made East Asian corporations some of the most important customers for Japanese high tech products. Where US firms saw vibrant electronics industries in other countries as competitors, Japanese corporations and state bodies like the Ministry of International Trade and Industry (MITI) saw them as potential customers (Arrighi et al. 1993). Thus, according to 'flying geese' conceptions, Japanese foreign investment allows considerably more scope than the western variety for real indigenous industrialisation by its semi-peripheral junior partners.

Thus, the rise of the East Asian developmental state is not just a matter of capability but also of opportunity. The East Asian tigers had institutions with *embedded autonomy*, enabling their states to make decisions and ensure that they were effectively implemented by local capital. But they were also integrated into the regional Asian economy in a way that gave them opportunities to upgrade and export in ways that were not available to states from other regions.

EARLY GLOBALIZATION IN SINGAPORE: AN EAST ASIAN EXCEPTION?

There are also important limitations on the 'flying geese' model and on the conception of East Asian developmental states. Before examining the flying geese model in a more critical way, however – especially with relation

to the 'new tigers' of Southeast Asia – it is important to examine an exceptional model among the original four tigers: Singapore. The other East Asia tigers give little support to the neoliberal ideology of contemporary globalization. South Korea and Taiwan achieved rapid economic growth by strong state intervention in the context of the special form of Japanese regional integration in the 1960s and 1970s. They did not liberalise, adhere to 'market principles' or, most importantly, attract major direct foreign investments by TNCs. Japanese firms that invested in South Korea and Taiwan created networks of local subcontractors and consumers of Japanese technologies that were responsive to developmental state policies. Even in Hong Kong, industrial successes were largely domestic and integrated into regional subcontracting networks.

Singapore, however, appears to offer a more 'optimistic' view of foreign direct investment. Singapore based its economic growth on concentrated investments from targeted foreign sectors. It set up an Economic Development Board (EDB) in 1959 to create infrastructure for industry and to identify the most promising sectors to attract foreign investments. The EDB targeted electronics TNCs after 1966 and, as a result, the electronics share of manufacturing assets grew rapidly, from less than 2 per cent in 1965 to nearly 30 per cent in 1980 (Lee 1997, p. 60). The EDB also targeted financial and business services, based on Singapore's historic role as entrepôt and banker to trade. Singapore soon became the centre of Asian financial services.

In apparent neoliberal style, the state avoided restrictions on the entry of foreign capital or personnel, or on their activities in Singapore. There are no restrictions on the removal of capital or profits. The state provided TNCs with tax incentives; duty free importation of equipment and materials; and various subsidies and grants. It also guaranteed political stability, peaceful

industrial relations and orderly wage increases, while suppressing labour movements (Lee 1997).

These policies arguably made Singapore 'the world's most globalized economy' (Ramesh 1995). It was the biggest recipient of FDI outside of the developed core during the 1980s, receiving nearly 13 per cent of such investments (Huff 1995, p.738, 739). The foreign share of manufacturing investments in Singapore grew from 43 per cent in 1965 to 75 per cent in 1994, and the foreign share of GDP doubled from 18 per cent in 1970 to 36 per cent in 1990 (Lee 1997). Foreign companies today account for three-quarters of manufacturing output and 85 per cent of manufactured exports (Huff 1995, p.740). In terms of industrialisation and economic growth, depending on foreign direct investments has undoubtedly been a good thing for Singapore. Of the four tigers, it has the highest per capita income and is now one of the 'richest' countries in the world.

This does not make Singapore a model of neoliberal development, however. First, as a city-state it can maintain rapid growth much easier than a larger country, where rapid manufacturing growth in the larger cities is often achieved at the expense of rural stagnation and poverty. Singapore manipulates surrounding countries to attract migrant labour when necessary, leaving problems of underdevelopment and unemployment to them. Moreover, Singapore's state intervenes heavily in the economy. Government directives have replaced market mechanisms in the labour market. The state directly provides key infrastructural support sectors for export industries and runs shipping, banking, transport, and trading companies (Lee 1974, Huff 1995). It funds infrastructure and public enterprise by forcing workers to save a high proportion of their incomes. In short, the 'Singapore model' of economic growth is based on strict control of labour, heavy state investment financed by forced savings, extensive state enterprise, *and* high dependence on TNC investments.

Finally, like South Korea and Taiwan, Singapore has faced barriers to technological development. High profit stages like R&D and product design remain in the home countries of TNCs. The state has been notably unsuccessful at restructuring the economy toward higher-tech activities because it has little influence over the kinds of projects provided by TNCs. Huff (1995, p.741) contends that 'the reliance on foreigners, together with Singapore's lack of an indigenous technological contribution to manufacturing, marks the Republic as not being a developed country'.

NEW TIGERS AND THE LIMITS OF GLOBALIZATION: THE ROLE OF TNCs

Given Singapore's apparent success, it is not surprising that the next wave of 'tiger cubs' were states around Singapore that began to attract TNCs directly instead of exporting cheap labour to Singapore to work in them. This was not universally the case until quite recently. Foreign ownership of Malaysian business before 1985 was mostly a legacy of its colonial past (Lim and Fong 1991, p.40). Also before 1985, Thai business elites managed to limit foreign investments to parts of the automobile and textiles industries. But after the 1980s recession countries of the region rapidly liberalised their economies. They privatised state firms, prioritised exports, liberalised rules on foreign ownership, cut corporate taxes, and expanded investment incentives. Foreign investments soared as a result. TNCs accounted for nearly half of Malaysia's fixed capital investment in 1985-1990 (UNCTAD 1997). Thailand secured major foreign investments in electronics after 1985 and was considered the most attractive investment location in Southeast Asia (Lim and Fong 1991, p.25). Foreign electronics investments accounted for a third of the growth of value added in Thai manufacturing during 1985-1990, rising to 40 per cent in the 1990s. One company, Seagate, increased its Thai employment from 5,000 to 20,000 in just two years after 1986. FDI in Thailand and Malaysia for the years 1988-

1991 alone exceeded FDI there for the previous three decades! Consequently, growth rates rose, nearly doubling in Thailand during 1985-1990 to 9.9 per cent. Both Malaysia and Thailand, in turn, were hailed as the 'fifth Asian Tiger'.

Yet this new tigerhood, dependent as it was on FDI, was different from earlier East Asian examples. One way of understanding these differences is by returning to a more critical view of the flying geese model. Rather than 'flying geese', Hart-Landsberg and Burkett (1998) call the Japanese-led model of regional development 'scrap-and-build'. They agree that regionalisation of Asian production is at the heart of explaining Asian development. But the flying geese analogy fails to recognise the hierarchical nature of divisions of labour in product-cycles and industrial diffusions (see also Bello 1993).

The Japanese and then the East Asians did 'scrap-and build' in three phases. First, Japan scrapped its production of textiles, toys, and labour-intensive electronic appliances in the mid-1960s to build up heavy and chemical industries. It relocated much of the scrapped production in East Asia. Second, the 1973 rise in oil and commodity prices spurred Japan to shift heavy and chemical industries to East Asia and upgrade into electrical machinery (including consumer electronics), transport machinery (including cars) and precision industry. The third phase of 'scrap-and-build' resulted from the mid-1980s 'yen crisis', when the yen appreciated relative to the dollar to ease US-Japan trade imbalances. This phase differed from earlier ones because Japan introduced no new products to take place of those it scrapped. Rather, Japanese manufacturers moved their production to Southeast Asia, resulting in high FDI dependency there and the 'hollowing out' of the domestic economy (Oizumi 1994). Japanese capital was still based in electronics and cars but their production was increasingly moved abroad to Southeast Asia, the US, and Western Europe.

Thus, in this third phase the Japanese strategy of outward movement lost the positive character that some experts have used to explain East Asian growth. Instead, it became closer to Western patterns of FDI. Japanese and East Asian capital, like that of other core zones, directly shifted production into each of the other core zones in order to compete for markets. They also located in Southeast Asia to reduce costs. In both cases, they shifted more subsidiaries instead of inducing subcontracting networks. Asian patterns of industrial relocation, then, were shaped by intensive core-semiperipheral-peripheral competition for TNC investments.

As a result, Asian regional integration after 1980 was based on an increasingly *unequal* division of labour. FDI in Southeast Asia and later in China lacked linkages to local economies. The share of local procurement in Japanese electronics firms in Malaysia is only about 30 percent (Bernard and Ravenhill 1995:197). Korean firms in Southeast Asia buy only 17 percent of their parts locally (Hart-Landsberg and Burkett 1998). According to Bello (1992), big Japanese and East Asian enterprises often take their small suppliers and subcontractors with them instead of buying from local suppliers. As a result, the Southeast Asian economies must import technology and components from Japan and East Asia in order to create exports. Thai import deficits with Japan easily exceed its trade surpluses with the US and Europe.

Thus, Hart-Landsberg and Burkett conclude that while the Southeast Asian economies export products previously exported by Japan and East Asia, their growth 'does not involve the same kind of indigenous project of late industrialization'. Instead, they argue, these countries 'embarked upon export-led growth in a period when the capital regionalization process seems to be undermining national development models even in the sense of *indigenously formed adaptations* to external forces or "industrialization by learning"' (1998:30). In other words, using McMichael's terminology,

economic tigerhood was different for Southeast Asia under the 'globalization project' than in had been for Japan and East Asia under the 'development project'. As Bello concludes, the process of 'corporate-driven horizontal and vertical integration' in Asia since 1985 did not result in the creation of a regional Asian economy with plural centers but, rather, in the '*regionalization of the Japanese economy*' (quoted in Hart-Landsberg and Burkett 1998). As a result, the roles of the Southeast Asian states have shifted dramatically, from developmental states (even if ineffectively so, due to the forced and often corrupt nature of 'demiurge' policies) to 'midwife' of foreign capital. As a condition of the IMF bailout of these economies from the crisis of 1997, these states are expected to restrict their activities even further in this direction, concentrating their policies on providing the goods and services, and the rules and institutions, that allow markets to flourish. A major part of this role is to provide skilled but cheap and flexible labour. As a result, as Hart-Landsberg and Burkett conclude, "the continuing high rates of poverty and inequality [in Southeast Asia], far from being an accidental 'side effect' of export-led accumulation, are a basic condition of this accumulation."[1]

THE CELTIC TIGER

The example of Asian 'scrap-and-build' indicates that semi-peripheral growth becomes less sustainable as one moves backward in the 'flying geese' formation. Japanese and East Asian investments are more western-style at the back of the 'V', relocating corporate subsidiaries rather than creating indigenous productive networks. Where growth depends on FDI, the state loses its role in shaping entrepreneurial responses to global changes. Moreover, the strategy necessary to attract FDI tends to create inequality because wages and social welfare must be restrained.

Do the non-Asian 'new tigers' exhibit similar characteristics? Is recent rapid growth in a place like the south of Ireland associated with similar

limitations on state strategies – neoliberal 'midwife' instead of *developmental* 'husband'? Does European competition to attract FDI create similar limitations on local development and popular prosperity as one finds in the Asian cases? Does European political regionalization (the EU project) or the form of TNC expansion into Europe (primarily for markets rather than cost reduction) create different or potentially different outcomes in the EU semi-periphery? In the following sections I examine these questions by analyzing Europe's new tiger: the southern Irish economy.

The Bases of Economic Growth

Ireland – the 'Celtic tiger' of a 1994 Morgan Stanley report (Gardiner 1994) – achieved rapid growth by attracting US TNCs in pursuit European market access. Ireland is a non-Asian economic 'tiger', where post-1987 government austerity was introduced under neoliberal EU economic rules. Unlike East Asia, EU rules preclude Ireland and other semi-peripheral states from manipulating exchange rates, differentiating among firms in corporate taxation, or selectively protecting domestic entrepreneurs to achieve developmental outcomes. Yet Irish economic growth appears to indicate that economic 'success' can be achieved through market-friendly policies.

In the 1980s the southern Irish economy was the failure of Europe, with stagnant growth rates, foreign disinvestment, rampant unemployment and rapid emigration. Yet Ireland achieved a stunning turnaround in the 1990s. Economic growth rates and export growth rates skyrocketed within a context of fiscal austerity, privatisation, and maximum integration into the EU single market. Ireland became a showpiece of globalization, indicating how a region could turn around from economic laggard to tiger in just a few years by integrating itself maximally into the global division of labour.

Orthodox economists argue that rapid Irish growth resulted from macroeconomic stability, itself a product of fiscal restraint and anti-

inflationary measures after 1987. A European Commission report credits Irish success to fiscal consolidation, exchange rate stability and a restrictive pay agreement (European Commission 1996). Bradley et al. (1997) argue that Irish growth resulted mainly from domestic factors like the development of human capital, outward economic orientation, tight fiscal policy, restrictive pay agreements, strong currency, a stable macroeconomic environment, and demand-growth by Ireland's major trading partners.

The main importance of Ireland's macroeconomic climate to its rapid economic growth, however, is that it helped the country to attract enough new TNCs to ensure high growth for at least half a decade. Unlike previous periods of TNC penetration, flows of new TNC activity in the 1990s were great enough to create *remarkable* rates of economic growth.[2]

In the late 1980s and 1990s southern Ireland captured a crucial segment of foreign investments into Europe during a time when such investments were agglomerating in fewer locations following the global restructuring of the 1980s. Foreign corporations were attracted to the south of Ireland primarily by its low profits tax rates (ten percent, compared to about forty percent in Britain). The attraction was magnified by restrained wages under national agreements, a well-educated labour force, improved infrastructure funded largely by EU transfers, and direct grants.

Ireland, already one of the most TNC-dependent economies in the 1970s and 1980s (O'Hearn 1989), became even more dependent in the 1990s. The foreign share of fixed capital investment in industry rose from about 60 per cent in 1988 to 75-80 per cent in the 1990s. Within this, the US share rose from 40-50 per cent during the mid-1980s to more than 75 percent in the mid-1990s (unpublished IDA data).

The computer industry is the main story in this regard. After Ireland joined the EU in 1973, its Industrial Development Authority (IDA) targeted US minicomputer companies. But this sector could not sustain high growth,

especially since domestic Irish industry was being driven out of business at the same time by the new free trade conditions of EU membership. Disinvestments as the global computer industry restructured in the mid-1980s hit Ireland extremely hard, as many companies that came to Ireland in the 1970s relocated elsewhere. Growth rates turned negative in the mid-1980s and unemployment skyrocketed to 20 percent.

The global restructuring that led one group of investors to contract, however, eventually provided opportunities to attract new foreign investors. In the new world of flexible specialisation, a fresh wave of foreign investors emerged, this time agglomerating their production facilities close to one another in order to reduce transactions costs and establish networks with other firms that could respond more quickly and flexibly to rapidly changing markets. Ireland benefited in the 1990s as one of the few locations of agglomerated foreign investments in computers and computer-related sectors. The main reason for Irish success was Intel. In 1991, Intel located its European site for the production of computer chips near Dublin. The cost to the Irish state of attracting Intel was huge: over 100,000 punts per job. By comparison, the average cost of attracting foreign jobs to Ireland in the 1990s has been about 12,000 punts (close to the average annual wage of the jobs it attracted).

In spending so much to attract Intel, the IDA *bought economic tigerhood*. Nearly every major player in the computer industry followed Intel to Ireland. Within a few years, the TNC sector in Ireland was a practical who's who in computers. PCs: Gateway, Dell, AST, Apple, Hewlett-Packard, Siemens-Nixdorff. Integrated Circuits: Intel, Fujitsu, Xilinx, Analog Devices. Disk drives: Seagate and Quantum. Software: Microsoft, Lotus, Oracle. Telemarketing and technical advice: Dell, Gateway, IBM, Digital. Beside these leading firms were less well-known makers of boards, power supplies, cables, connectors, data storage, printers, networking — in short, everything

that goes into or around computers, and services that use computers. By 1998 Ireland was the second largest exporter of software in the world, behind the US.

The rapidity of this change was astounding. In the midst of it I argued that agglomeration of global investment patterns could have grave consequences for the European semi-periphery because more and more countries were competing for a limited number of foreign investments (O'Hearn 1995). This competition was heightened by the prospect of EU expansion, enabling low-cost East European locations to win investments that would have earlier gone to Ireland, Portugal or Spain. Most importantly, there could only be a couple of 'winners' in this competition, because companies were locating close to each other for the sake of flexibility.

For the European periphery as a whole, the facts bore this assessment out. As inward investments agglomerated in places like Britain, many regions found themselves unable to attract the share of FDI they had gained in the 1970s and 1980s. But Ireland became one of the few 'winners' in terms of its ability to attract a huge network of foreign companies in computers, computer peripherals, software, and computer-related internationally traded services. Since 1988, Ireland attracted 40 per cent of US electronics investments in Europe and 20 percent of total industrial FDI into the EU.

As a result, Irish GDP grew by 4.7 percent annually in the 1990s, rising to 7-8 percent since 1995. These are less than Asian tiger growth rates, but very high compared to the rest of the EU. The association between FDI, exports and high economic growth is clear-cut. Foreign chemicals, computers, and electrical engineering directly accounted for over 40 per cent of Irish economic growth in the 1990s (over 50 per cent in three years during 1990-1996). Ten large US TNCs in computers and chemicals accounted for a third of value added in southern Irish manufacturing in 1994 Murphy

(1994). It is barely an exaggeration to say that the Irish tiger economy boils down to a few US corporations in computers and pharmaceuticals.

Despite the short tenure of rapid economic growth in Ireland *thus far*, some experts argue that Irish per capita incomes have rapidly converged toward the EU average. According to official EU statistics, the southern Irish economy grew from producing 60 percent of the European average per capita GDP in 1988 to exceeding the EU average by 1996. Yet this assessment depends on the use of a particular measuring rod, *purchasing power parities* (PPS), which supposedly equalise different countries' GDP according to how much each could buy *at the price level of its own country* rather than at international exchange rates (in terms of foreign exchange rates, Ireland's GNP was still less than 70 per cent of the EU average in 1995). Yet there are problems with the way PPS are calculated and used by the EU to make poorer countries appear richer.[3] In the Irish case, the trade surplus is rapidly increasing as a share of GDP and this is a major cause of rising PPS rates. Yet the trade surplus is very closely related to TNC profit repatriations (Figure 4, below), so that an increasing part of GDP cannot in any meaningful sense be considered as 'Irish' income even though it is received by TNCs operating in Ireland. Since the disparity between total incomes received in Ireland (GDP) and incomes that remain in Ireland (GNP) has increased to nearly 15 percent, GDP seriously overstates the contribution of economic activity to Ireland's material well being. Moreover, Irish economic growth rates are responsible for just 13 percent of supposed Irish convergence to average EU income levels, while changing PPS rates are responsible for 21 per cent (nearly two-thirds).

Apart from convergence, important questions about Irish growth rates arise from the country's extreme dependence on TNCs. Corporate profit shifting inflates Irish growth rates to an unknown but serious extent. TNCs are attracted to Ireland primarily by its low profits tax rates. They are

overwhelmingly from the sectors where profit shifting through transfer prices is most common. Dunning and Pearce (1985) found that more than 50 per cent of European 'exports' in computers and pharmaceuticals were intra-company transfers (the proportion is substantially higher for exports originating in US-owned firms), and studies have found that many of these internal transactions are carried out at distorted prices. Borkowski (1992), for example, found that two-thirds of his sample of 79 US TNCs kept two sets of books, one for tax purposes and the other to evaluate real performance by subsidiaries.

If transfer price manipulation is as widespread as the literature suggests, it would have a dramatic effect on Ireland's economy. Value added is inflated because import costs are recorded as profits and, therefore, GDP is inflated. In years when such foreign activities increase dramatically, as they have in the 1990s, a significant proportion of recorded economic growth will be a phantom of accounting. We cannot accurately measure transfer pricing without full access to TNC accounts, but there are strong macroeconomic indicators of significant transfer pricing behaviour. These include particularly high TNC profit rates in the sectors most prone to profit shifting, rapid increases of output without associated capital investments and rapid rises of labour productivity that cannot be explained by other factors such as the use of higher technique or discernible improvements in skill-formation.

Stewart (1988) uses such indicators as value-added per employee and comparative import-export prices to build a case that TNCs engage in significant profit shifting in Ireland. He also cites a series of US company reports that refer to Ireland as an important site for tax reduction. In many cases the US Internal Revenue Service made tax claims against companies on the basis that they underpaid taxes on their Irish operations (pp.52-53). Further evidence is unpublished IDA data which show stunning profit rates

for US pharmaceutical companies (about 50 per cent of sales), computer companies (35 per cent) and soft drinks companies (up to 70 per cent). US companies overall have profit rates of about 30 per cent in the south of Ireland and receive more than three-quarters of manufacturing profits there (unpublished data from Forfás surveys of Irish economy expenditures). The exceptional nature of such profit rates is shown by the fact that non-US computer firms have profit rates of less than 10 per cent, Irish chemical companies generally get negative or zero profits, and Irish companies overall average 3-5 per cent profit rates. Moreover, the profit rates received by US TNCs in Ireland are much higher than the same companies' profit rates elsewhere. According to the US Department of Commerce's *Survey of Current Business*, US TNCs maintained profit rates (net income as a percentage of sales) of about 25 per cent in Ireland during the 1990s, *five times greater than the 5 per cent profit rates they receive elsewhere*. This ratio has risen from about 2.5:1 in the 1970s.

Perhaps the greatest anomaly of the Celtic tiger is rapid growth *without* investment (which also indicates TNC profit shifting). According to unpublished IDA data, TNC investment in the 1990s fell to less than two-thirds the rate they invested in the early 1980s, even though their output was growing at a historic rate. The share of manufacturing investments in total capital investment fell from nearly 20 per cent in 1990 to 16 per cent in 1996, despite the fact that industry accounted for 60 per cent of GDP growth during that period. The most rapidly growing sectors in terms of output grew *least* in terms of investments. The drop of investment in electronics and chemicals, where output growth was most rapid, was greater than the average for manufacturing as a whole. This is consistent with the suspicion that a large percentage of growth in manufacturing was a phantom of accounting, since there is little indication that growth was based on investment. Overall, the

southern Irish economy has had the *lowest investment rates in Europe* during the 1990s at less than 15 percent (Figure 1).

By contrast, the East Asian tigers are all noted for maintaining the highest investment rates in the world. Singapore maintained an investment ratio of 41.3 per cent during 1980-1992 (Huff 1995, p.1422). The four East Asian tigers increased their average investment ratios from around 20 per cent in 1965 to more than 35 per cent in 1990 (Page 1994, p.617). High investment was the key to their rapid export growth, which was in the key to economic growth. Singapore, whose economic structure appears to be closest to Ireland's because of its high dependence on foreign investments, achieved the world's highest investment rates. Not only have foreign companies invested heavily in Singapore, but the state heavily invested in infrastructure, state companies, and its own foreign portfolio.

The area of investment is one of the clearest cases of difference between old and new tiger states. Investment has been a key area where East Asian states cajole and shape the development of entrepreneurs (both private and state), using instruments such as discriminatory interest rates to channel their activities. This has been possible because indigenous entrepreneurs are responsive to such instruments. The TNCs that dominate Irish growth, however, are not responsive to such policies and the Irish state must follow a more restricted role of 'midwife'.

Economic Growth and Material Well-being

Dependent accumulation in Ireland has effects on popular well being that are the opposite of its 'success' in terms of economic growth. In order to attract foreign projects the Irish 'custodial' state must provide low tax rates and wage moderation, which has been assured by a series of corporatist national wage agreements. The result of tigerhood – a *necessary* result

given the conditions under which it was achieved – is a rapid shift from consumption and investment to profits.

Profit shares of national income have risen rapidly while wage shares have fallen in the 1990s (Figure 2). These factor shares changed very little before 1987 but, as the rate of economic growth began to rise in the 1990s, they began to shift. The wage share of non-agricultural incomes fell from 69 per cent in 1987 to 59 per cent in 1994, while the profit share rose from 31 to 41 per cent. The overwhelming 'winners' from economic growth are capitalists, who have enjoyed a rapid rise in their profit incomes – absolutely and relative to wages.

As the class distribution of incomes shifted in favour of capital, individual incomes also became more unequal (Figure 3). Direct incomes of the poorest decile of the population actually fell between 1995 and 1987, although state transfers such as social welfare and pensions compensated this. Real disposable incomes of the second, third and fourth poorest deciles of the population grew less than 1 per cent annually, while the disposable incomes of the top 40 per cent grew more than *twice as quickly*. Wages and salaries also became more unequal. Nolan and Hughes (1997, pp.4-6) found that 'from 1987 to 1994 there was a consistent widening in dispersion for both weekly and hourly earnings, particularly at the top of the distribution'. The average hourly wages of the bottom quarter fell from 73 per cent of the median in 1987 to 67 per cent in 1994, while average earnings for the top decile rose from 196 per cent of the median in 1987 to 226 per cent in 1994. Earnings became more unequal for both men and women, both younger and older employees, but the fall in hourly wages was especially large for the bottom 10 per cent of male workers.

Incomes became more uneven because they grew so slowly for most Irish people. As a result, consumption grew much more slowly than the economy as a whole. When economic growth neared 10 per cent in 1995,

for example, the growth of consumption actually *fell* to 4 per cent. Thus, there was a large discrepancy in the rate at which the economy was growing and the rate at which people actually experienced improvements in their material standards of living. Evidence of record luxury car sales, property speculation, and expansions of retail space during this period of austerity reflect growing inequality in society as a whole.

The Irish national accounts show how far incomes shifted from consumption to profits under the Celtic tiger. Total consumption fell from nearly 80 percent of GDP in the mid-1980s to 68 percent in the mid-1990s. According to economic orthodoxy, such a shift away from consumption could enhance economic sustainability so long as resources were shifted into investment. A developmental state, with the full gamut of instruments with which to channel profits into developmentally desirable directions, would certainly find such resources to be useful. But this does not apply to the Celtic tiger because the investment share of GDP *also* fell, from about 20 percent in the mid-1980s to 15 percent in the mid-1990s. Neither consumption *nor* investment has been pushed significantly upward by rapid Irish economic growth. Instead, the rise of profits is concentrated in TNCs and is subsequently repatriated so that it is outside of the control of the Irish state. As in Southeast Asia, but unlike East Asia, the new tigerhood in Ireland is based on an accumulation strategy that requires TNCs to be free not just to receive profits but also to remove them. Thus, GDP growth is concentrated in neither consumption nor investment but in the export surplus, which is practically equivalent to repatriated profits (Figure 4).

Hart-Landsberg and Burkett argued that the form of accumulation at the back end of the 'V' of flying geese *necessarily* suppresses popular incomes and wages in favour of profits. Japanese and East Asian capital moved to Southeast Asia during the third (globalization) phase of 'scrap-and-build' because costs were lower there. A similar explanation holds for

Ireland, but with an important twist. Rather than low-wage labour, Ireland's main attraction to TNCs is low taxes. As a result, while TNCs have taken advantage of wage restraint in Ireland they mainly reduce their costs of production by hiring very little labour at all. Wages are an extremely small part of total costs in TNCs – as little as two percent in the case of US manufacturers of soft drinks concentrates. As a result, employment growth has taken a very different shape from economic growth.

The Irish media gives the impression that the Celtic tiger has brought thousands of high-quality high-tech engineering jobs. Such jobs are announced with great fanfare in the Irish press. Yet the vast majority of new jobs in the 1990s have been extremely low quality: low-pay, temporary contracts, routine work. And they are overwhelmingly in services rather than manufacturing. The rise in service employment accounted for 102 per cent of total employment expansion in Ireland in the 1990s. New manufacturing jobs did not even replace jobs lost in agriculture (*LFS* 1996, p.24)! Half of new employment is routine clerical workers, shop assistants, and miscellaneous service workers. Another third is classified as 'professional and technical workers', but are mostly low-paid semiskilled work. Women have dominated the employment rise of the 1990s, accounting for 70 per cent of new jobs. Men experienced significant employment increases only in management and electronics. Ironically, while economic growth has been concentrated in TNC-controlled manufacturing, employment growth has been concentrated in routine services.

This service expansion is directly and indirectly connected to the Celtic tiger. The expansion of US computer firms has created demand for local services – accountants and solicitors at the 'high' end, telemarketing and teleservice operators at the low end. But most new jobs are in tourism, catering and retail, some of which are more tenuously connected with the manufacturing expansion of the 1990s through the high-end spending spree

and speculative bubbles created by the minority of people who have become much better off.

The proportion of part-time and contract work among new jobs is high. Ireland already had the second-fastest growth rate in the EU in numbers of part-time employees during 1987-1990, at 5.5 per cent per year (ICTU 1996, p.11). This nearly *doubled* during 1990-1995 as the number of part-time employees increased by 10.2 per cent per year (*LFS* 1995, table 28). Atypical work expanded both in industry (where economic growth is concentrated) and in services (where new employment is concentrated). Overall, the number of part-time workers rose by 66 per cent during 1990-1995. Their share of total employment grew from 7.9 to 12 per cent and a further 10 per cent of employees were on fixed term contracts in 1995. Thus, nearly a quarter of Irish employees are now 'atypical' workers lacking either full-time work or job security.

The proportion of part-time and contract jobs rose rapidly in TNCs. The proportion of TNC employees who worked on a contract or part-time basis tripled from 2 percent in 1986 to 6 per cent in 1993. Thereafter, atypical workers made up a disproportionate share of new jobs in TNCs: 40 per cent in 1994 and 28 per cent in 1995. Thus, TNCs provide one of every five new jobs, but a quarter of the new *part-time* jobs (IDA 1995).

Although flexibilisation of labour is a global phenomenon, it has happened differently in Ireland than either in East Asia or the west. TNCs in Ireland use a 'cherry-picking approach' to new forms of productive organisation (Jacobson 1996). Rather than the networked 'world-class manufacturing' model that many experts claim to find in Japan and East Asia, TNCs pick only those aspects of flexibilisation that suit them. In general, they introduce practices that weaken trade union power and increase their ability to hire and fire or manipulate working hours. Many TNCs have a dual employee structure, where *core workers* have relatively

good conditions and performance-based pay, but work alongside a 'buffer' of part-time, temporary, and contract workers. According to Roche (1995), this model prevails in the new US electronics firms that exemplify the 'Celtic tiger' image, as well as in banking and finance. In services, on the other hand, employers simply hire more atypical workers to replace of full-time permanent ones.

Perhaps this is where the concept of 'embeddedness' applies to the Irish state. Since the state's main goal relative to TNCs is to create an attractive environment, it concentrates on creating better physical and 'human' infrastructures. The latter means improving the skill levels of labour as well as their flexibility. To do this, the southern Irish state has combined with trade unions in corporatist tripartite national agreements that have increased flexibility, at great risk for Irish workers (ICTU 1993 and 1994, Gill et al. 1993, Jacobson 1996). The Programme for National Recovery (1987), the Programme for Economic and Social Progress (1990), and the Programme for Competitiveness and Work (1996) were all used primarily to constrain wage rises but also to increase worker flexibility. Local agreements were successfully concluded under one national agreement in 77 per cent of enterprises monitored in a government study. In the overwhelmingly majority of these, employees acquiesced to flexibility in return for slightly higher pay: more part-time work, temporary work, fixed-term contracts, subcontracting, and new technologies (Taylor 1996, p.269-271).

Thus, the new Irish employment of the 1990s was flexiblized at a rate that exceeded EU core regions. Employers introduced new forms of work because they were more profitable. Trade unions and the southern Irish state went along largely because the Irish economy is so dependent on foreign corporations. As Wickham (1993) notes, if the choice is between atypical work and no work the decision is obvious.

Conclusions

Economic tigers have changed along with the world economy. The first tigers in Japan and East Asia embodied what social scientists have termed the *developmental state*. It is hard to imagine their success without strategic state interventions – manipulating market instruments like foreign exchange rates and interest rates; setting targets for the sectoral distribution of output, exports, and other important goals; and becoming directly involved in business itself. These are interventions that go beyond what Evans (1995) termed the 'midwife' role to an ongoing role of manipulating entrepreneurial behaviour. This model had its limitations for the regions that followed Japan, especially in terms of technological upgrading. Its regional division of labour is clearly hierarchical. Yet it enabled the East Asian tigers to achieve remarkable upward mobility in terms of per capita incomes, even though this 'prosperity' was not fully transferred to the population at large.

The 'new tigers', however, arose under a phase that McMichael (1995) calls the 'globalization project', where states find their instruments of intervening restricted. Instead, they are encouraged to fully integrate into regional hierarchies of production in terms that are dictated primarily by 'self-regulating' markets. The role of Southeast Asian states has not been the broad one of the developmental state, which closely manages entrepreneurial behaviour over time. Rather, it is closer to the limited role promoted by the World Bank: providing infrastructures, rules and institutions that allow self-regulating markets to flourish. The exception to self-regulating markets, of course, is the labour market. All economic tigers have used wage restraint and flexibilization as major incentives to attract new investment.

The Irish case demonstrates that these trends are not restricted to Asia. Ireland has achieved rapid rates of economic growth by European standards. It has done so on the basis of government spending restraint, wage moderation, and foreign investment. As a result, a small share of the

benefits of growth have accrued to the local economy, with an increasing gap opening up between retained and repatriated factor incomes, between profits and consumption, and between GDP and GNP. The sustainability of economic growth is highly questionable. Most importantly, growth has become increasingly separated from popular well being, with the growth of consumption lagging far behind the growth of output, and with poverty and inequality on the rise.

Still, output performance and the rise of conspicuous consumption, rather than long-term unemployment and low pay, forms the popular image of the Celtic tiger. The demonstration effect of this 'economic success' is obvious. Semi-peripheral countries throughout Europe and further afield want to know more about the recipe of Irish success. Reports by the OECD and others have spread the powerful ideological message that economic success comes from responsible macroeconomic policy: government austerity, low inflation, wage restraint, 'getting the prices right'. In other words, the developmental state is dead – long live the market.

The unsung results of such policies, however, are less encouraging. In Ireland as in Southeast Asia, the policies that are necessary to become an economic tiger encourage inequality and suppress popular material well being. Consumption is suppressed for profit. Yet this does not automatically translate into reinvestment because the increased profits go almost entirely into the foreign sector. Thus, the local semi-peripheral economy can sustain its high economic growth only as long as it attracts enough foreign projects to produce and export more. In Ireland's case, since the economy is so dependent on US TNCs from a few economic sectors, serious concerns arise about limitations of global demand. Market pressures have already with respect to Intel and other major computer firms.

But the generalisability of the new tigerhood is its most questionable aspect. The case of Singapore has shown that with foresight, luck, and good

management a single country can maintain high growth rates of foreign investments for long periods of time in small places. Yet the 'Asian flu' that hit the region in 1997 indicates that such a growth model cannot be sustained across large regions. The same is true of Europe. Countries on the EU periphery (Portugal, Spain, Greece) and on the eastern European periphery may look to Ireland as a model of successful development. Yet Ireland has 'succeeded' only because it attracts such a high proportion (twenty percent) of manufacturing investments into the EU with just one percent of the EU population. Next door, Britain attracts *forty* percent of total foreign investments into the EU but it has hardly become a 'tiger' for doing it.

Most importantly, the Irish option simply cannot apply to the whole European periphery. As in the famous film *The Producers*, the idea that Irish tigerhood can be generalized is based on the false premise that one can sell fifth-shares of *EU-investments Inc.* to an unlimited number of clients. Obviously, this cannot be done. In the end, the neoliberal development model is even more limited than earlier models of developmental states. As more semi-peripheral states compete to attract TNCs, they must give away more to attract them. As a result, fewer benefits accrue to the host economy. As these limitations of neoliberal development become clearer, it is not beyond reason to expect that semi-peripheral countries will return to models based on some more interventionist form of developmental state.

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This does not just apply to Southeast Asia. Compared to Japan, even South Korea and Taiwan are still mainly sites for relatively labour-intensive production, such as electronic assembly of Japanese components. Their 'heavy' industries are relatively less high-tech and less profitable than associated Japanese nodes of the same commodity chains. And even

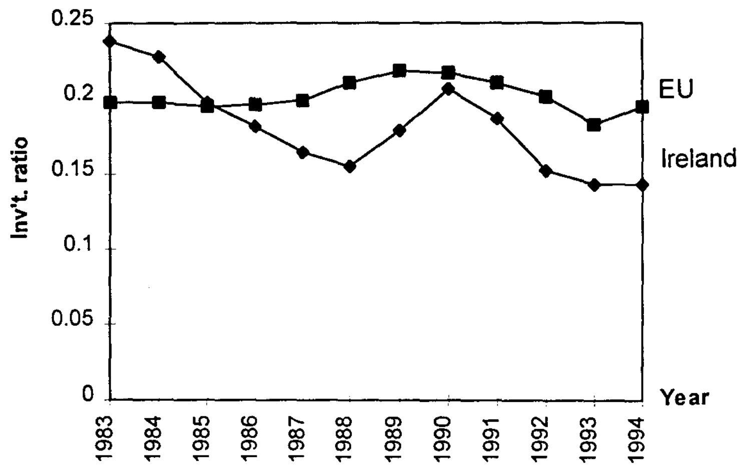
ıeir leading sectors, like computers or cars, are still heavily dependent on Japanese ›chnology (Smith 1997, Hobday 1994a, 1994b). Thus, although being an economic tiger as been a 'pathway from the periphery' in one sense for East Asia, there is still a 'glass ceiling' n their access to technologies. The position for Southeast Asia is much more restricted. rugman has taken this lack of real innovation in East Asia to deliver the most stinging critique f the East Asian 'miracle', which he calls simply a 'myth'. 'What is miraculous about more inputs elding more output?' he asks, adding that 'Economies cannot forever keep increasing labour nd capital inputs at such high rates' (1994:64).

Ironically, as Asian countries compete for export-led growth by cheapening production, thus npeding the development of local markets through increased wages, they exacerbate the onditions of over-capacity in export goods that led to the Asia crisis of 1997.

Note that I refer to the flow of TNC *activity* rather than to foreign direct investment. This, as we nall see, is because TNC output and exports have grown rapidly during the most recent wave f growth, but with relatively *low* rates of investment.

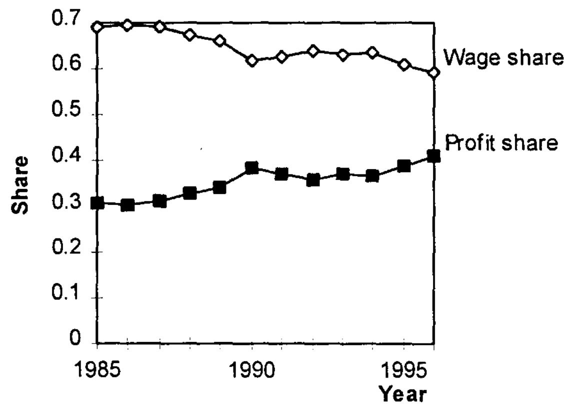
These problems include the use of government wage levels to estimate the cost of public oods and the failure to account for changes in PPS levels that are due to shifting shares in DP of consumption, investment, and trade surpluses. Poorer countries appear much richer the PPS system of accounts: Ireland appears to be about 16 per cent 'richer', Greece eems 36 per cent 'richer', Spain 22 per cent, Portugal 55 per cent (Germany, on the other and, appears to be about 14 per cent 'poorer'). Moreover, the EU PPS system ranks Irish DP some 15 percent higher than the World Bank's PPS accounts.

Figure 1. Irish and EU Investment Ratios, 1983-1994.*



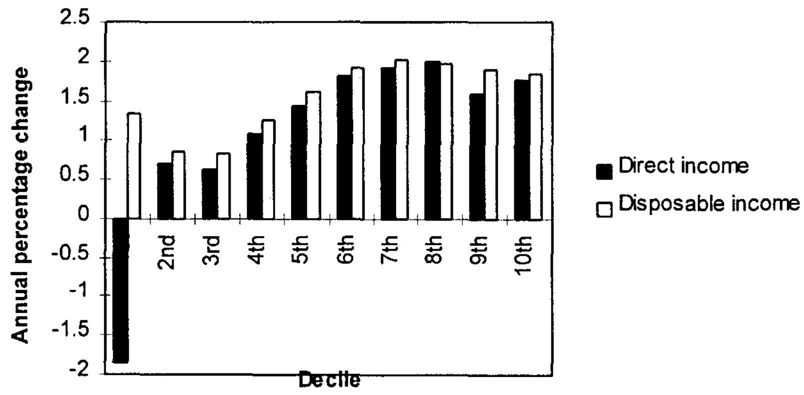
*Investment ratio is Gross Capital Formation divided by GDP.
Source: Eurostat.

Figure 2. Changing factor shares of Irish income, 1985-1996.



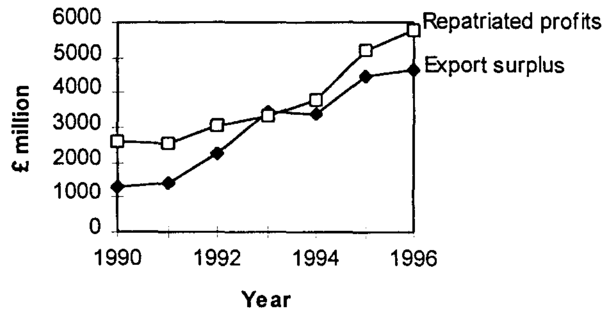
Source: CSO, *National Income and Expenditure* .

Figure 3. Annual rates of household income growth 1987-1995, by deciles.



Source: Household Budget Surveys, 1987 and 1995.

Figure 4. The relationship between the export surplus and repatriated profits, 1990-1996.



Source: CSO