

# Has an Open Financial Sector Helped Other Countries Grow, like Ireland?

After centuries of economic stagnation, Ireland has become Europe's fastest growing economy due in large part to policies that encourage foreign investment and competition. In particular, foreign participation in Ireland's financial system has played a major role in the country's dramatic economic transformation.

For more than fifty years after Ireland's succession from the United Kingdom in 1922, Ireland's economic policies discouraged trade and international investment, creating successive economic crises and accelerating the emigrating of its population. Finally, in the late 1980s, in response to severe economic difficulties, Ireland's leaders set a new economic course – one that included policies aimed at encouraging investment from abroad, with a significant focus on financial services.

In 1987, Ireland established the International Financial Services Center (IFSC) through legislation designed to improve the Irish economy. The goal of the IFSC, located in Dublin, was to attract international financial services companies to Ireland. Ireland's Finance Act of 1987, which offered a low 10 percent tax rate for financial companies locating in the IFSC, along with other legal and regulatory incentives, helped facilitate rapid growth in Ireland's financial services sector.

By 2000, capital flows into Ireland had grown to the world's largest when measured as a share of gross domestic product, marking Ireland's rise as an important center for international financial transactions.<sup>1</sup> Many of the world's leading financial institutions now have operations in Ireland including Citigroup, JP Morgan Chase, Merrill Lynch, AIG, Mitsubishi Trust & Bank, BNP, Daiwa, Deutsche, and ABN Amro. Nearly 100,000 people are employed in the financial services sector in Ireland, approximately 1 in 40 individuals.<sup>2</sup> Employment in the financial services sector has grown by 50 percent in the last eight years and is expected to grow by another 75 percent by 2020. Financial services account for over 35 percent of Ireland's services exports.<sup>3</sup>

Since 1995, Ireland's economic output has grown by an average annual rate of 6 percent – accelerating to 9 percent since 2000.<sup>4</sup> By 2006, Ireland boasted the second highest GDP per capita in the European Union and the ninth highest GDP per capita in the world, earning Ireland the moniker “the Celtic tiger.”<sup>5</sup>

Brian Cowen, Ireland's current Minister of Finance, speaking at a recent financial services forum, praised the financial services sector for its international competitiveness, saying, “The financial sector has contributed in a substantial way to our economic development.”<sup>6</sup> At the same event, John

Trethowan, President of the Institute of Bankers in Ireland, called the financial services industry “a key engine of growth for the new economy of Ireland.”

The thriving financial services sector also plays a key role in facilitating foreign direct investment in Ireland. By 1998, Ireland ranked second in the European Union with regard to per capital foreign direct investment.<sup>7</sup> In 1999, the Organization for Economic Cooperation and Development (OECD) rated Ireland as one of the world’s three most open economies. Ireland’s Development Authority (IDA), which promotes foreign direct investment, indicates

that there are more than 1,000 IDA companies in Ireland employing 132,000 people, accounting for exports of \$95 billion, and expenditures in the Irish economy of \$20 billion. The IDA attributes foreign direct investment to strong export-led economic growth, employment growth, the development of business friendly infrastructure, human resources development, regulatory improvements, new technology development, substantial increases in corporation tax revenues, and the importation of world-class skills, management techniques, and business know-how.<sup>8</sup>

---

<sup>1</sup> Partners in Europe HQ is based in the World’s Most Globalized Economy A.T. Kearney/Foreign Policy Magazine Globalization Index.

<sup>2</sup> [http://www.ucd.ie/news/may06/051206\\_strategic\\_alliance.htm](http://www.ucd.ie/news/may06/051206_strategic_alliance.htm)

<sup>3</sup> <http://www.ifsonline.ie/about.html>

<sup>4</sup> Murphy, Antoine E., The Celtic Tiger: An Analysis of Ireland’s Economic Growth Performance, Rober Schuman Centre for Advanced Studies.

<sup>5</sup> CIA World Fact Book

<sup>6</sup> UCD, Belfield, Dublin 4, Ireland.

<sup>7</sup> [http://www.forfas.ie/publications/inter-trade\\_00/directinvest.htm](http://www.forfas.ie/publications/inter-trade_00/directinvest.htm)

<sup>8</sup> [http://www.idaireland.com/home/sitetool.aspx?id=3&content\\_id=1](http://www.idaireland.com/home/sitetool.aspx?id=3&content_id=1)