Globalisation

Chapter 17

Oisín Moffatt

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Learning Outcomes

In this chapter we will:

1. explain the concept of globalisation and discuss positive & negative implications of globalisation
2. discuss the reasons for multinational corporations (MNCs) investing in countries outside their home country
3. investigate data patterns in inflows/outflows of foreign direct investment into Ireland over a period of time and evaluate the effect of multinational corporations/foreign owned industry on Ireland's economy

Intro

Globalisation

Globalisation refers to the process of increasing global interconnectivity in the international trade of goods and services, casting the world as one giant marketplace.

Note this term is distinct from the political concept of globalism.

Positive impacts

1. Greater economic prosperity for LDC's – free and fair trade across the globe allows developing countries to share in the wealth of stronger economies.
2. Boosts employment – as firms expand production over the planet, they take on more workers to man new production units.
3. Greater competition between firms – globalisation opens up markets to foreign competition so domestic firms must offer lower prices and better choice – consumers benefit.
4. Improved international relations – trading and enriching other nations benefits all parties involved, unlike harmful wars – if we buy iPhones off US, we get the phones and US gets our money.

Drawbacks of Globalisation

Drawbacks

1. Increases wealth inequality – large companies like Nike can outsource their work to third-party suppliers to subject their workers to appalling pay and work conditions.
2. Harms the environment – international transit of goods and services leads to higher carbon emissions and traffic congestion. Disposal of mass waste can also scar the landscape and harm ecology.
3. Outsourcing can cause job losses for domestic workers – some US firms use cheap Chinese labour to make their products instead of hiring US workers, which can damage the local economy.

Characteristics of MNC's

MNC

Multi-national corporation is one with business operations in more than one country – its headquarters are usually located in the home country from which it manages the global activities of host countries.

Characteristics of MNC's:

- Large in size – MNC's are huge business organisations with vast access to capital and technological resources, holding influence over national governments.
- Multi-country operations – located in two or more countries. MNC's have production, service and marketing departments spanning large geographical areas.
- Have various aims – these aims include
  1. access to new markets/customers,
  2. acquire cheap raw materials to maximise competitive capacity,
  3. lower costs by accessing cheap labour.
- Management is centralised – global operations and business activities of MNC's are controlled from the headquarters in home country and some control may be shared with locals in host country, e.g., Managing Director of AbbVie plant in Sligo is Irish, even though AbbVie is a US-based company.

Why do MNC's exist? What justifies existence of such massive companies?

Achieve economies of scale – as firms grow in size they gain efficiency like discounts on bulk-buying, low-interest/low-risk loans, specialised production, supporting expansion business activity across borders.

By-pass protective mechanisms of home country – setup as a multi-national subsidiary rather than just subsidiary to avoid costly investigations, prosecutions, audits, etc.

To reduce transport costs – by locating close proximity to raw materials and retail markets, MNC's can avoid excessive spending on importing or exporting goods.

Foreign Direct Investment

There are more than 200,000 Irish residents employed in 1,200 foreign companies in sectors such as pharmaceutical production, financial services, engineering, tech, etc.

FDI – Definition

Foreign Direct Investment flows record the value of cross-border transactions relating to direct investment during a specific period of time.

FDI inflow is the value of inward direct investment made by the non-resident investors in the reporting economy. In an Irish context, Intel's €30 billion worth of investment in Ireland since 1989 (mainly at its Leixlip plant) represents an FDI inflow.

FDI outflow is the value of outward direct investment made by residents of reporting economy to external economies. Ryanair, a company listed on the ISEQ and with its headquarters in Dublin, plans to invest €600 million in an airport base at Gdansk (Poland) by summer 2026. This constitutes an FDI outflow for the Irish economy.

The IDA

The Industrial Development Authority is a gov't body which attracts FDI into the Irish economy.

The functions of the Industrial Development Authority include:

Support Services (Pro Bono): Providing expertise on setting up, accessing talent, R&D, and navigating business/regulatory environments at no cost.

Infrastructure Development: Ensuring suitable property and advanced facilities are available for investors, often through regional building programs.

Funding & Incentives: Offering grants, tax credits, and other financial supports for RD and job creation.
Ecosystem Building: Connecting international firms with local universities, research centers, and other businesses.

Why is Ireland so focused on attracting FDI inflows?

1. **FDI is the backbone of Ireland's export base:** With limited domestic demand, Ireland's growth model depends on selling into global markets. Foreign-controlled firms dominate the tradable base, so attracting/retaining FDI is directly tied to output, employment, and living standards. In 2023, foreign-controlled enterprises produced $\frac{\text{€326bn}}{\text{€399bn}} \times \frac{100}{1} \approx 82\%$ of Ireland's services exports.
2. **FDI boosts jobs, especially higher-wage earnings:** Beyond job counts, the key economic channel is that foreign-owned firms disproportionately contribute to wage bills and productivity-linked earnings, supporting consumption taxes and income tax. As of late 2024:
   - Foreign-owned enterprises employed about 618,700 people
   - IDA client companies directly employed 302,566 ($\approx$ 11% of national employment).
3. **FDI-heavy sectors generate a very large share of GDP/GVA:**Ireland targets FDI because mnc-dominated sectors account for an outsized share of value added, which lifts average productivity and (via wages and domestic spending linkages) supports domestic living standards. In 2023, "foreign-owned MNE dominated" sectors produced €223.853bn, or 46.2% of Ireland's GVA.
4. **Contributes to gov't revenue:** Ireland's fiscal capacity is now heavily linked to multinational profitability. This creates a strong incentive to prioritise FDI competitiveness, while also forcing policymakers to manage concentration and volatility risks.
   In 2024, net tax receipts were €107.1bn. Corporation tax was the largest tax head at €39bn net (36% of total tax receipts). The corporate tax base is highly concentrated: the top 10 corporate groups paid $\approx$ 59% of corporation tax receipts in 2024.