8 Determinants of competitive advantage of a small economy in the era of globalisation: Ireland in 2007–2014*

Introduction

Over the last years a great deal of public attention has been devoted to the phenomenon of national competitiveness, both in political discourse[1] and in scientific debate.[2] An increased interest in this subject, dating back to the second half of the 1970-s, has been attributed to the progressing globalisation. Dynamic changes taking place in the global economy and, as a result, the increase of the significance of some countries within the new division of labour, stimulated the need to point out the "winners" and "losers" of this geo-economic transition.

In light of these developments, specialised agencies (IMD, World Economic Forum) have been assigned with the task to monitor and benchmark the competitive abilities of the single economies. Moreover,

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[1] P. Krugman, *Making Sense of the Competitiveness Debate*, "Oxford Review of Economic Policy" 1996, Vol. 12, No. 3, p. 17; L. Lloyd-Reason, Wall S., *Dimensions of Competitiveness. Issues and Policies*, Edward Elgar, Northampton 2000, p. 17.

[2] Significant contributions in the international debate on the competitiveness of economy were presented, among others, by M.E. Porter, J. Fagerberg, X. Sala-i-Martin, S. Lall, C.H. Ketels, P. Krugman. In Poland, this issue has been discussed, among others, by J. Misala, W. Bieńkowski, J. Bossak, M.A. Weresa, E.M. Jagiełło, M.J. Radło, Z. Wysokińska, N. Daszkiewicz, M. Olczyk, S. Wydymus and M. Runiewicz.

in many countries (including Poland) government-linked institutions have been assessing the relative position of their economies, tracking the changes in the international competitiveness rankings and supporting the processes of designing long-term national development strategies.

Despite the popularity of "competitiveness", which has become one of the most widely discussed topics in the modern economics, no consensus among researchers has been reached on how to adequately define,[3] model and measure[4] this economic phenomenon. There is, however, one point on which the scholars agree: as the national competitiveness has a comparative character, its study needs to take into consideration national characteristics and developmental determinants of the analysed countries.[5]

In this context, it has been acknowledged that competitiveness should be analyzed from a comparative perspective, within a group of comparable entities, and that economies ought to be categorized based on their distinguishable common features. The most frequently used categorisation is the distinction based on the stage of economic development.[6] Another classification method relies on grouping countries according to their relative bargaining power, i.e. a distinction into "small" and "big" economies.[7] However, scholars have not yet agreed on a generally accepted definition of a "small economy". Through identification of its

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[3] B. Snowdon, G. Stonehouse, *Competitiveness in a Globalized World: Michael Porter on the Microeconomic Foundations of the Competitiveness of Nations, Regions and Firms*, "Journal of International Business Studies" 2006, No. 37, p. 163; J. Misala, *Międzynarodowa konkurencyjność gospodarki narodowej*, PWE, Warszawa 2011, p. 63.

[4] M. Olczyk, *Konkurencyjność*, *Teoria i praktyka*, CeDeWu, Warszawa 2008, p. 47.

[5] E.M. Jagiełło, *Strategiczne budowanie konkurencyjności gospodarki*, Poltext, Warszawa 2008, p. 29.

[6] D. Cho, H. Moon, *A Nation's International Competitiveness in Different Stages of Economic Development*, "Advances in Competitiveness Research" 1998, Vol. 6, No. 1, pp. 10–11; X. Sala-i-Martin, *The Global Competitiveness Index 3 2012–2013: Strengthening Recovery by Raising Productivity*, in: K. Schwab, *The Global Competitiveness Report 2012–2013*, World Economic Forum, Geneva 2012, p. 20.

[7] T. Crowards, *Defining the Category of Small States*, "Journal of International Development" 2002, Vol. 14, No. 2, pp. 143–179; S. Castello, T. Ozawa, *Globalization of Small Economies as a Strategic Behaviour in International Business*, Garland Publishing, London 1999.

characteristic features, it can generally be concluded that a small economy is characterized by a limited economic potential rooted in smaller domestic market size, limited geographic potential and scarce natural resources. Thus, its efficient integration within the international division of labor is the way to overcome natural constraints and to reach developmental goals.

In the light of above, the following research hypothesis has been formulated: in the times of progressing globalisation, the competitive advantage of a smaller economy does not have to be based solely on its domestic potential but may also be generated through the integration within the network of international interconnections.

Ireland has been chosen as the subject of the analysis due to its unique characteristics that fulfill the above-mentioned criteria of a small open economy.[8] Regarded for centuries as the European "troublesome poor child", this small country (4 million inhabitants) located on the European frontier, managed to join the group of the EU richest states within just one decade of the 1990-s. Irish developmental success went in line with rising wave of globalization and regionalization, and is often attributed to the thoroughly implemented strategy of integration within the new global economy.[9] Consequently, since the beginning of the XXI century, Ireland has been ranked at the top positions in economic globalisation rankings.[10] This allows to suggest that competitive advantage of the Green Island, as opposed to its neighbours (for example bigger Great

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[8] S. Garelli, *Competitiveness 20 years later*, IMD Competitiveness Yearbook 2008, s. 30; N. Hewitt-Dundas, A. Singh, Y. Ho, P. Wong, *Knowledge Flows of Innovation in Small Open Economies – Comparative Analysis of Ireland and Singapore*, "Innovation, Productivity and Public Policy" Institute for Small Business and Entrepreneurship Conference, London2010.

[9] P. Kirby, P. Carmody, *Moving Beyond the Legacies of the Celtic Tiger*, Institute of the International Integration Studies, Discussion Paper No. 300, Dublin 2009; J. Rosa, *Wpływ bezpośrednich inwestycji zagranicznych i środków finansowych Wspólnot Europejskich na rozwój Irlandii po 1 stycznia 1973*, Wyższa Szkoła Rozwoju Lokalnego, Żyrardów 2004.

[10] A. Dreher, N. Gaston, P. Martens, *Measuring Globalization – Gauging its Consequence,* Springer, New York 2008, data from the website of Swiss Federal Institute of Technology Zurich (KOF) http://globalization.kof.ethz.ch (accessed 10.07.2015).

Britain), is to a lesser degree based on its domestic potential but rather depends on the active development of international bonds and interconnections.

Assuming that competiveness of smaller countries depends on their ability to make use of the opportunities created by the development of a global economy, the aim of this paper is to evaluate the role of international economic interdependencies in shaping Ireland's competitiveness. Acknowledging additionally a greater vulnerability of "very open" economies to external shocks, the role of the negative globalisation effects (results of the financial crisis) on the evolution of sources of Irish competitive advantage after 2009 seems to be an interesting research aspect. In this context, the following research question has been formulated to guide the presented analysis: have the economic problems associated with a strong globalisation of the Irish economy become a trigger for the development of its domestic competitive potential or, on the contrary, the 2009 crisis resulted in the even stronger dependence of the Irish economy on its international partners? In order to illustrate the prospective changes of the sources of the Irish competitiveness, the analysis has been conducted based on the generalized double model of competitive advantage[11] for the years 2007–2014. The statistical data of international organisations, including ILO, UNIDO, OECD, WEF and UNCTAD have been used.

1. Developmental determinants of a small open economy in the era of globalisation

Uncovering the nature of a "small economy" presents a widely discussed definitional challenge.[12] There are two main approaches to the economy sizing adopted commonly in the scientific literature: determining the size basing on the domestic market potential, and basing on the classical economics theory that investigates the bargaining power of a country in the

[11] H. Moon, A. Rugman, A. Verbeke, *A Generalized Double Diamond Approach to International Competitiveness of Korea and Singapore*, "International Business Review" 1998, Vol. 7, pp. 135–150.

[12] S. Castello, T. Ozawa, *op.cit.*, p. 8.

global markets. As far as the criterion of the domestic market size is concerned, there is no single "cut-off point",[13] with the most frequently applied proxies for the population size ranging from approx. 1.5[14] to 5 million inhabitants.[15] According to the bargaining power criterion, a small economy, through its internal supply and demand boundaries, has a limited chance to successfully establish its international position. Smaller economies do not necessarily have to be characterised with low GDP per capita values; however, "even if they achieve good economic results, they still remain relatively insignificant players in the world markets".[16]

This point of view is, however, static and does not take into consideration the strategic role of multinational companies and the dynamics of the global economy.[17] This observation inspired S. Castello and C. Ozawa to suggest that a small open economy, being limited by its own economic potential, needs to identify its strengths and strategically use the opportunity provided by the external world in order to improve productivity and prosperity.[18] Hence, efficient integration within the international division of labor is seen as the right strategy to overcome the natural constraints to achieve and sustain competitive advantage. It can be concluded that small countries are "forced" to be open, with openness being understood as an active participation in the world trade in the conditions of free movement of production factors.[19] Therefore, in the

[13] World Bank, *Small States: Meeting Challenges in the Global Economy*, Report of the Commonwealth Secretariat, World Bank Joint Task Force on Small States, Washington 2000, p. 3.

[14] T. Crowards, *op.cit.*, pp. 143–179; *Small States: Meeting Challenges in the Global Economy...*, p. 3.

[15] H. Armstrong, R. de Kervenoael, X. Li, R. Read, *A Comparison of the Economic Performance of Different Micro-states, and between Micro-states and Larger Countries*, "World Development" 1998, Vol. 26, s. 639–656; D. Bräutigam, M. Woolcock, *Small States in a Global Economy: The Role of Institutions in Managing Vulnerability and Opportunity in Small Developing Countries*, WIDER Discussion Paper 2001, No. 37 after S. Castello, T. Ozawa, *op.cit.*, p. 10.

[16] S. Castello, T. Ozawa, *op.cit.*, p. 10.

[17] *Ibidem*.

[18] S. Castello, T. Ozawa, *op.cit.*, p. 18.

[19] E. Oziewicz, *Zagraniczne inwestycje bezpośrednie w rozwoju gospodarczym krajów Azji Południowo-Wschodniej*, Wydawnictwo Uniwersytetu Gdańskiego, Gdańsk 1998, p. 110.

era of a progressing globalisation, analysing only internal determinants of competitiveness of a small economy does not fully reflect its nature,[20] since the integration within a global network gives it a real chance of overcoming natural developmental barriers.

2. Internationalisation of a small open economy and the sources of its competitive advantage

According to M. Porter, national competitiveness is determined by interdependent microeconomic factors: demand conditions, factor conditions, rivalry among the companies, and the existence of supporting industries. The network of interactions between these elements, forming a ‘diamond’, constitutes the context for a business development. The cumulated success on the micro level stimulate the emergence of innovative sectors, affecting the competitiveness of the entire country.

In consequence, according to the Porter’s model, small economies, due to their limited bargaining power in global markets, limited resources and/or a small domestic demand, in principle do not have good prospects for building a sustainable competitive advantage.[21]

Nevertheless, in a number of case-based empirical studies it has been proven that the inclusion into the global economy gave numerous smaller economies a real chance to overcome natural development barriers and allowed them to achieve a remarkable economic success.[22]

Given the lack of universality of Porter’s concept, numerous researchers pointed out the need of “adapting” the diamond model to the developmental conditions of smaller economies.

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[20] M.H. Dunn, *Do Nations Compete Economically? A Critical Comment on Prof. Krugman’s Essay “Competitiveness: A Dangerous Obsession”*, “Intereconomics” 1994, November–December, pp. 305–306.

[21] H. Moon, A. Rugman, A. Verbeke, *Extended Model: The Generalized Double Diamond Model*, in: *From Adam Smith to Michael Porter*, “Asia-Pacific Business Series” Vol. 2, “World Scientific” 2000, p. 112.

[22] Countries in Southeast Asia should be mentioned here (D. Cho, H. Moon, *op.cit.*, pp. 5–19), with Singapore being the prime example (H. Moon, A. Rugman, A. Verbeke, *Extended Model*..., p. 113).

The concept suggested by H. Moon, A. Rugman and A. Verbeke is regarded to be the most universal extension to the Porter's original model. In the generalized double diamond, competitiveness has been defined as: "the capability of firms engaged in value added activities in a specific industry in a particular country to sustain this value added over long periods of time in spite of international competition".[23] Thus, it has been stressed that the competitiveness of smaller economies is created by both domestic and foreign owned firms acting in the country's territory, which base their success on the integration within the network of strong international relations in the global economy.

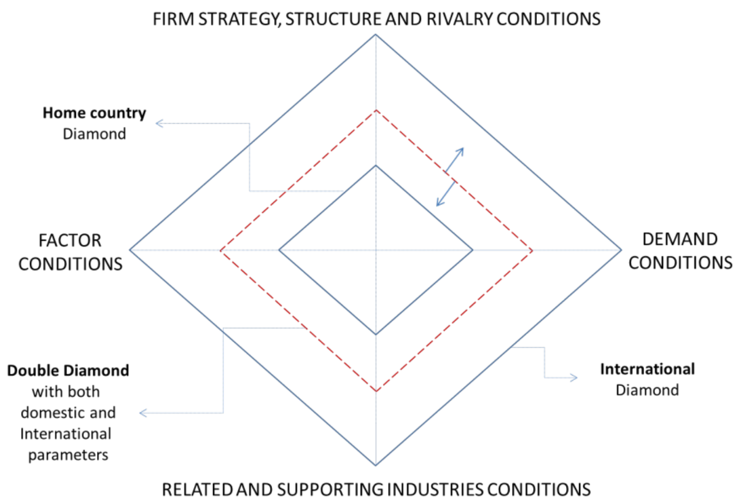

Figure 1. Generalised double diamond of competitive advantage of a small open economy

Source: H. Moon, A. Rugman, A. Verbeke, *Extended Model...*, p. 116.

In light of the above arguments, and as presented in Figure 1, when analysing the competitiveness of a small open economy one should consider both the internal dimension (described by national parameters), as

[23] H. Moon, A. Rugman, A. Verbeke, *Extended Model...*, p. 117.

well as the external dimension of competitiveness (defined as the interactions with other countries and the impact of the activities of transnational corporations via inbound and outbound FDI).

Some problems in application of this model are associated with the difficulties in selection of the appropriate independent variables and their proxies for the competitiveness diamond, both in the national and international perspectives. The ones chosen for the analysis in this paper have been inspired by the studies of the original generalized double diamond model,[24] the analysis of the competitiveness diamonds for Korea and Taiwan by D. Liu and H. Hsu (2009), as well as by the analysis of the competitiveness of the Romanian economy compared with the EU average by Ban and Postelnicu (2010) and the analysis for the Visegrad countries by E. Molendowski and M. Żmuda (2014). The statistical data originates from the Eurostat database and the Global Competitiveness Report.[25]

The variables applied in this paper have been listed in Table 1.

Table 1
Domestic and International Independent Variables
for the Double Diamond Model

Domestic Independent Variables for the Double Diamond Model	International Independent Variables for the Double Diamond Model
1	2
Factor conditions Basic: Activity rate (% in the age group 15+) Advanced: Number of people employed in R&D (per 1,000 people employed) Expenditure on R&D (% GDP) Domestic innovation ability	**Factor conditions** Basic: FDI outflow stock (% GDP) Advanced: FDI inflow stock (% GDP) Technology transfer via FDI[a]

[24] *Ibidem*.

[25] Global Competitiveness Report is based on the results of an annual survey conducted among the business leaders in each of the analyzed countries. Answers range from a scale of 1–7, where 1 is the lowest and 7 the highest possible value. For each of the variables used in this paper, the exact question from the Executive Opinion Survey has been presented in the footnotes.

1	2
Demand conditions	**Demand conditions**
Size:	Size:
Population size (in millions)	Value of goods and services exports (% GDP)
GDP per capita (USD, current prices)	
The size of domestic market	
Differentiation:	Differentiation:
The percentage of people with higher education	The size of high-tech exports
Consumers sophistication[b]	(% of total export)
Supporting industries	**Supporting industries**
Degree of cluster development[c]	Quality of air infrastructure[j]
Availability of local suppliers[d]	Efficiency of customs procedures[k]
Quality of local suppliers[e]	The number of days necessary to export
Quality of road infrastructure[f]	goods out of the country
Quality of railroad infrastructure[g]	
Quality of domestic research institutions	
Strategy and competition	**Strategy and competition**
Intensity of local competition[h]	The presence of foreign capital[l]
The nature of competitive advantage of domestic	Barriers in the access of foreign goods in the
companies	access to the local market[m]

[a] Technology transfer via FDI (1 = insignificant; 7 = main source of technology).
[b] Decision criteria during the purchase (1 = the lowest price; 7 = analysis of the product characteristics).
[c] Degree of cluster development (1 = absent; 7 = many clusters in many sectors of economy).
[d] Availability of local suppliers (1 = not available; 7 = many).
[e] Quality of local suppliers (1 = very low; 7 = very high).
[f] Quality of road infrastructure (1 = one of the worst in the world; 7 = one of the best in the world).
[g] Quality of railroad infrastructure? (1 = one of the worst in the world; 7 = one of the best in the world).
[h] Intensity of local competition? (1 = limited; 7 = intensive in most sectors).
[i] The basis of competitive advantage of domestic companies (1 = low labour costs; 7 = innovation).
[j] Quality of air infrastructure (1 = one of the worst in the world; 7 = one of the best in the world).
[k] Efficiency of customs procedures in exporting and importing (1 = ineffective at all; 7 = very effective).
[l] Companies with foreign capital (1 = do not exist; 7 = are an important pillar of the economy).
[m] In how far the tariff and not tariff barriers restrict the access of foreign goods into the domestic market (1 = strongly restrict; 7 = do not restrict at all).

Source: H. Moon, A. Rugman, A. Verbeke, *Extended Model...*, pp. 119–121; D. Liu, H. Hsu, *An International Comparison of Empirical Generalized Double Diamond Approaches to Taiwan and Korea*, “Competitiveness Review: An International Business Journal” 2009, Vol. 19, No. 3, p. 163, E. Molendowski, M. Żmuda, *Changes in Competitiveness Among the Visegrad Countries After Accession to the European Union: A Comparative Analysis Based on a Generalized Double Diamond Model*, “Comparative Economic Research” 2013, Vol. 16, No. 4.

In order to calculate the values for the independent variables of the model, the method used by its authors has been applied.[26] It has to be stressed that the presented analysis has not been designed to reveal all determinants of Irish competitiveness but just to indicate the grade of "the internalisation of economy".[27]

3. The outcomes of the strong globalisation of the Irish economy

In numerous publications Ireland has been presented as a poster child of a globalization-fuelled economic success.[28] The first free economic zone in the world has been established on this small island already in 1958 in order to promote the inflow of the American export-oriented foreign direct investment. In the next years the territory of the zone has been gradually extended to cover the entire country[29] and further incentives for foreign investors have been established to create one of the most liberal taxation systems in the EU.[30] Moreover, the investors received a comprehensive support from Industrial Development Agency (IDA), whose main task was to stay in close contact to the multinational corporations, attract them and adapt the Irish offering to their evolving needs.[31]

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[26] H. Moon, A. Rugman, A. Verbeke: *Extended Model...*, pp. 124–126. In the comparison of competitive advantage factors of two economies, the maximum value of the "100" indicator was given the the country which had a higher value of the indicator, but the relative value, expressed in % was given to the country which had the lower value. If one of the indicators consisted of two (or more) elements, a half of it (or respectively less) value was given to each of the constituents. The "double" diamond illustrating the role of the relationships with external environment was determined as the resultant of the domestic and international diamond.

[27] *Ibidem*, p. 127.

[28] N. Smith, *Showcasing Globalisation? The Political Economy of the Irish Republic*, Manchester University Press, Manchester 2005; F. Barry, J. Bradley, *FDI and Trade: the Irish host-country experience*, "The Economic Journal" 1997, Vol. 107, Issue 445.

[29] S. O'Riain, *The Politics of High Tech Growth: Developmental Network States in the Global Economy*, Cambridge University Press, Cambridge 2004, p. 71.

[30] F. Barry, *Export Platform FDI: The Irish Experience*, EIB Papers Vol. 9, No. 2, Luxemburg European Investment Bank, Luxemburg 2004, p. 16.

[31] P. Collins, S. Grimes, *Ireland's Foreign-Owned Technology Sector: Evolving Towards Sustainability?* "Growth and Change" 2008, Vol. 39, No. 3, p. 437.

These consequently realized governmental strategic actions resulted in a strong inflow of the export-oriented FDI, particularly visible in the 1990's (see Figure 2). It is, however, important to note that despite a strong FDI inflow into the Irish economy after 2009, the net FDI stock (inflow stock minus the outflow stock) has been gradually decreasing to reach the value of – 259 billion USD in 2014. Two turning points in the history of Irish investments have been marked on Figure 2 with the dotted lines.

The first turning point, in the year 2004, marked the moment of the New Member States accession to the European Union. This is when the FDI inward stock in Ireland dropped for the first time since the economic boom in the 1990s. The outflow of the international capital was caused mainly by the strategy of the relocation of lower-value-added production investments to cheaper EU countries. This is when Ireland as the American production base in Europe started to be gradually replaced by the Central Eastern Europe.

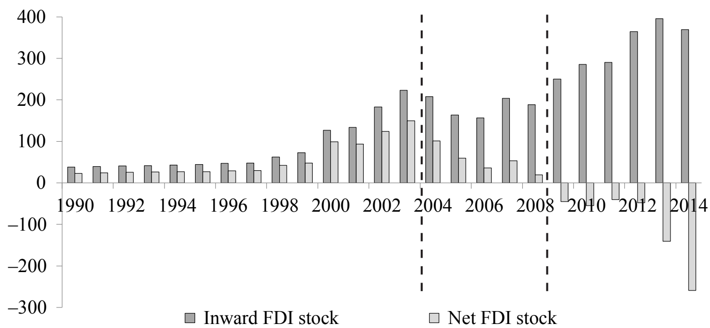

Figure 2. Value of inward and net FDI stock in Ireland in the years 1990–2014 (bln USD)

Source: World Investment Report 2015 UNCTAD.

The outbreak of the global financial crisis was the second moment that shaped the economic future of the Green Island. Within the last five years (2009–2014), a fast increase of the inward FDI stock in Ireland has been accompanied by even faster investment outflow. This situation can be explained by the deteriorating cost competitiveness, poor macroeconomic condition of the Irish economy, investors' concerns about the long-term investment profitability and further pursued relocation strategy to the cheaper EU states. Moreover, another frequently addressed problem relates to sophisticated taxation practices of American corporations that take advantage of the Irish liberal tax system in order to avoid or decrease the payment of the tax due in the home country.[32]

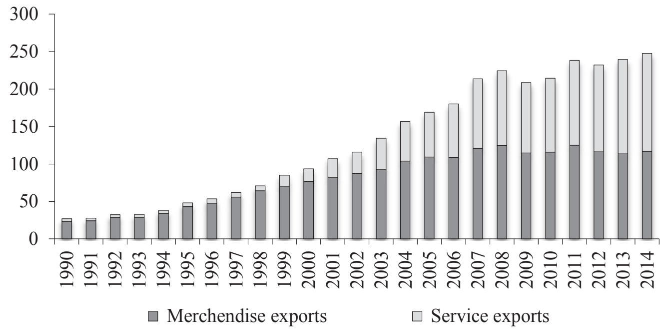

Figure 3. The development of Irish exports in the years 1990–2014 (bln USD)

Source: OECD statistics www.stats.oecd.org (accessed 10.07.2015).

A strong inflow of the American export-oriented foreign direct investment resulted in a rapid increase of the Irish merchandise exports value (see Figure 3). This is how in the 1990s Ireland became one of the leading global centres for pharmaceuticals and hardware production, ranking among the top high-tech merchandise exporters. After the year 2004, a shift in the Irish exports specialization can be observed. As presented in Figure 3, a stagnation of the merchandise exports value has been accompanied by the fast increase in the value of service exports. This trend confirms a strategic relocation of the foreign investment in

[32] J.B. Darby, K. Lemaster, *Double Irish More Than Doubles the Tax Savings: Hybrid Structure Reduces Irish, US and Worldwide Taxation,* Practical US/International Tax Strategies 2007, Vol. II, No. 9, pp. 2–16.

the EU: with Ireland remaining the location for the higher value added FDI (mainly European headquarters of the American service corporations, taking advantage of the liberal Irish licence trading system) and the lower value added production FDI being gradually shifted to the CEE countries.

Irish remarkable success on the world's investment and trading map enabled an accelerated economic growth and development, resulting in the raise of social welfare. As the data in Figure 4 shows, over the last three decades Ireland evolved from the position of the "Celtic pauper" to one of the richest EU countries. In reference to the success of the South-Eastern Asia, Ireland gained the nickname of the "Celtic Tiger".[33] What is more, in 2000 Ireland reached the top positions in the leading competitiveness rankings.[34]

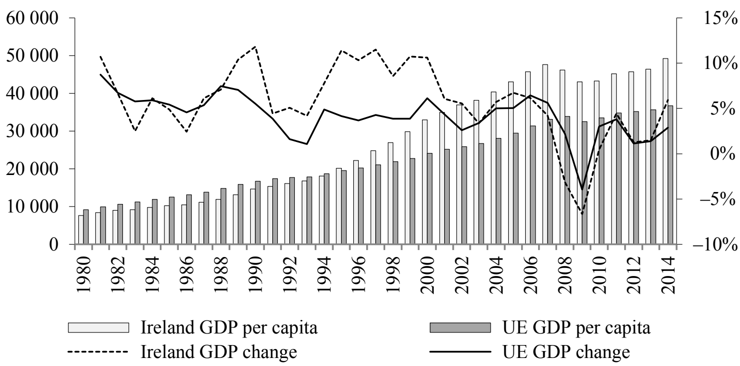

Figure 4. GDP per capita (USD, PPP) in Ireland compared with the EU average in the years 1980–2014

Source: IMF, World Economic Outlook Database, www.imf.org/external (accessed 10.07.2015).

[33] S. Dorgan, *How Ireland become Celtic Tiger*, "Heritage Foundation Executive Summary Backgrounder" 2006, No. 1945.

[34] World Economic Forum, *Global Competitiveness Report*, Geneva 1996–2014; IMD, *World Competitiveness Yearbook*, Lausanne 1996–2014.

Although a high degree of the economic openness constitutes a great chance for development it is also a large threat for the small country's stability in times of the global crisis. P. Kirby and P. Carmody stress that Ireland like no other country experienced so many of both positive and negative results of globalisation.[35] Already before the collapse of the global financial system in 2008, which particularly severely hit the highly globalized Irish economy, numerous scholars questioned the sustainability of the developmental model based solely on the foreign capital. As the result of the dramatic macroeconomic situation, and outflow of FDI, Ireland's position in the competitiveness rankings significantly deteriorated.[36]

Percentage change in particular years in comparison with the previous year.

4. The sources of Ireland's competitive advantage in 2007, 2012 and 2014

In order to evaluate the impact of integration within the global economy on the sources of Irish competitive advantage, national and double competitiveness diamonds have been designed, comparing Ireland to its larger neighbour – Great Britain. The results of the conducted analysis suggest that in the years 2007–2014 integration within the global economy significantly improved the operating conditions of the companies in Ireland, as compared to the situation in Britain. The data in Figure 5 show that this principle is true for every element of the diamond in each of the analysed years, particularly for demand and factor conditions.

Ireland, as a small open economy can be characterized by a small domestic demand and limited resources, which decreases the chances of Irish companies to achieve and sustain international competitive advantage. This is reflected in the relatively smaller size of the Irish domestic competitiveness diamond. It is, however, clear that the Irish

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[35] P. Kirby, P. Carmody, *op.cit*., p. 12.

[36] World Economic Forum, *Global Competitiveness Report...*; IMD, *World Competitiveness Yearbook...*

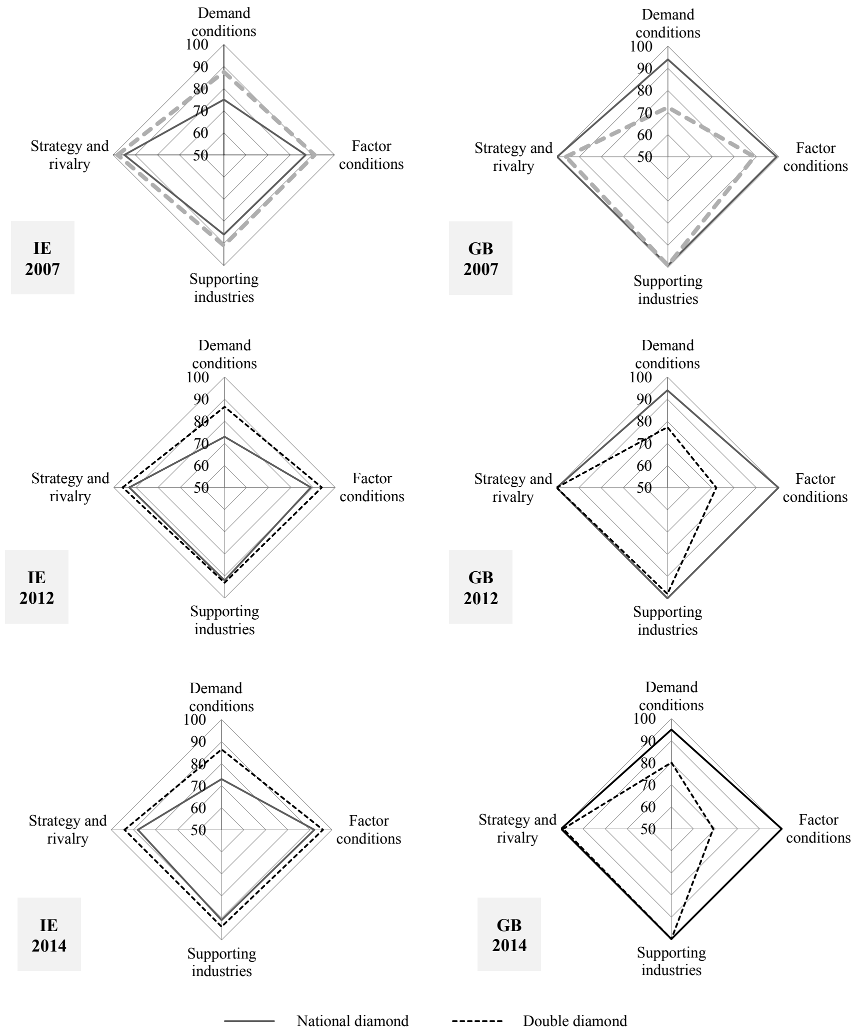

Figure 5. Internationalisation and the sources of competitive advantage in Ireland and Great Britain

Source: The author's own calculation on the basis of the WEF, UNCTAD, UNIDO, ILO, OECD data.

competitiveness significantly increases after considering external factors, illustrated by the larger size of the Irish double diamond. Exactly the opposite situation can be observed for Great Britain.

Thanks to the integration within a single European market, the companies operating in Ireland gained access to new target markets through export activities. Thus, the problem of limited resources of a small economy has been solved through the flows of FDI, with the particular role played by the inflow of high-tech FDI, accompanied by the transfer of knowledge. This foreign injection of know-how and technology has significantly enlarged the size of the Irish diamond of competitive advantage in the area of advanced production factors.

While implementing the strategy of intensive promotion of export-oriented FDI, Irish government introduced a number of incentives for international investors. Through this move, the double diamond in the area of supporting industries has been enlarged. Whereas Great Britain achieved better results in the area of domestic supporting industries, particularly concerning the quality and availability of local suppliers, Ireland offered better conditions for international activity, including a complex support for foreign exporters and importers.

Finally, the inflow of foreign capital into the economy and the presence of foreign goods in the domestic market increased the intensity of rivalry in the Irish market, motivating domestic actors to improve quality and to increase the level of product and process innovation.

The results of the conducted analysis prove a high degree of internationalisation of the Irish economy and, at the same time, high dependence of its competitiveness on the situation within the global economy. Therefore, a question arises in how far the described situation has changed after the outbreak of the financial crisis. In order to evaluate this, the Irish diamonds calculated for years: 2007, 2012 and 2014 have been analysed, separately on the domestic and international level. The results of the analysis have been presented in Figure 6.

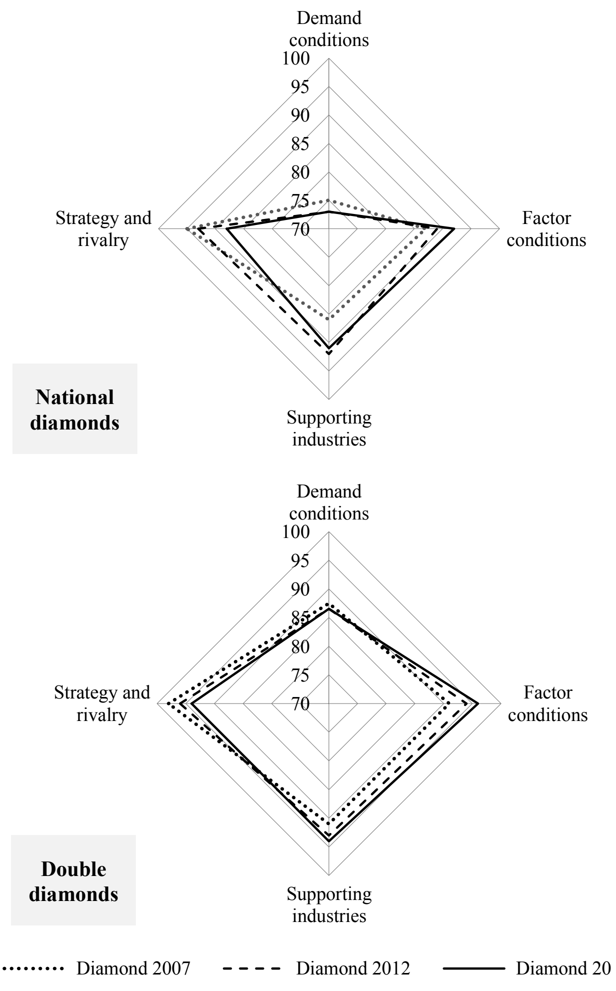

Figure 6. Evolution of sources of the Irish competitive advantage in the years 2007, 2012 and 2014

Source: author's own calculation on the basis of the data of WEF, UNCTAD, UNIDO, ILO, OECD.

As would be expected, as the consequence of the economic recession relative demand conditions in Ireland have deteriorated, particularly the domestic demand. However, what is of particular importance for a small, globalised economy, the export volume has not declined. During the recession strongly affecting the Irish economy, the only positive economic indicator was the exports surplus. This trend allows to predict that thanks to the awakening of the global demand and a strong pro-export orientation of the Irish industry, the Green Island has a chance to return to the growth path.

This scenario seems to be even more realistic today than it was in 2007, as the Irish domestic sources of competitive advantage, particularly the availability and quality of domestic factors of production, have significantly improved. In the period of the deterioration of its economic situation, driven by the decrease of its competitiveness and the world recession, Ireland started to build its national potential through innovation. These actions resulted in the significant improvement of the Irish competitive positioning in 2014, particularly in the area of advanced production factors: the expenditures on R&D activities have intensified, stimulating increased employment in innovative branches. Additionally, it needs to be stressed that the factors stimulating the Irish innovative ability from outside i.e. FDI flows and technology transfer from abroad, did not deteriorate.

Another positive signal for the Irish economy is the relative improvement in the area of support given to companies in Ireland, both to their domestic and international activities, in comparison with the year 2007. The quality of domestic suppliers has improved, with better efficiency of clusters. Moreover, thanks to the investments in infrastructure, the quality of business communication facilities has improved. This seems to confirm the multifaceted internal mobilisation aimed at increasing the attractiveness of the Green Island.

This optimistic picture of the Irish return to the growth path has been overshadowed by a systematic decrease in the level of domestic rivalry. Already before the crisis, the threats for a long-term stability of the Irish economy were observed because of the economy's dualistic structure:

a division into a strong, highly effective sector of export-oriented multinational companies, and a weak sector of Irish companies concentrated on satisfying the basic needs of the domestic market. During the crisis, weak Irish companies encountered another obstacle for their development – sharp decrease of the domestic demand resulted in the bankruptcy of many of them. This situation constitutes a danger of further market polarisation, driven by the growth of foreign corporations at the costs of national companies and by the further marginalisation of local entities. Due to the lack of Irish transnational companies, and to the strategies of foreign corporations to relocate to more attractive locations, foundations of Ireland's competitiveness might be shaken.

Conclusions

The presented analysis based on the Irish example reveals that a small open economy has a real chance to overcome its natural supply and demand constraints, if it takes advantage of the development of a global economy. The integration within international network of economic interdependencies can constitute a strong pillar, on which both domestic and foreign companies build their competitive advantage.

Nevertheless, it has been stressed that in the long term a high degree of internationalisation should not only be seen as a developmental opportunity, but also as a threat to the economic stability of a small economy, particularly vulnerable to the external economic shocks. The lack of domestically-rooted sources of competitive advantage may deepen the recession and make the return to the growth path particularly difficult.

Five years after the breakout of the global economic crisis, some interesting conclusions can be drawn from the analysis of the external shock effects on the Irish competitiveness. The outcomes of the analysis based on the generalised double diamond model for the years 2007–2014 confirm that strong sustainable competitive position cannot be based solely on external factors, without a gradual development of the national competitive potential. It has been observed that in consequence of the economic recession, Irish authorities understood that in order to sustain a long-term interest of transnational corporations, it is necessary to enlarge the offering beyond the taxation incentives. Thanks to the investments into technological and physical infrastructure after the year 2009, the competitive advantage in the area of advanced production factors has been improved, stimulating better support for international business.

The future of Ireland still remains, however, an open question. In the context of the collapse of domestic demand, the Green Island has become even more dependent on the performance of its exports. This situation constitutes a substantial challenge for many Irish companies oriented toward the local market, facilitates further marginalisation of Irish SMEs, and stimulates development of a dual economy divided into a modern sector of foreign companies and less innovative sector of domestic SMEs.

To conclude, it seems that for a small economy a high level of openness through active exports and FDI promotion, without a strong domestic competitive basis, may only be a short-term escape from its economic problems. In the long-term, if no strong incentives have been offered, the rootless multinational enterprises, chasing the profits, will have no concerns to relocate investment to more profitable locations, leaving the small host economy on its own.

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