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Foreign Direct Investment in the Republic of Ireland

1 Heading

The following paper examines the Republic of Ireland's (RoI) Foreign Direct Investment (FDI) proposition by looking at perspectives on how it established itself as a FDI attractive region and current perspectives on its FDI offering. The paper also outlines RoI Government's strategic approach to maintaining and enhancing its FDI proposition up to 2020.

2 Performance

According to the Department of Jobs, Enterprise and Innovation, the RoI's has performed well in attracting FDI in recent years despite challenging economic conditions. The Department highlight the following positives:

- 3,300 (of which 1,100 are IDA Ireland supported) foreign owned firms employ approximately a quarter of a million people between them;
- Agency supported foreign owned firms:
  - directly employed 172,326 people, with a further 124,000 (estimated) employed indirectly in 2013;
  - contributed 72% of corporation tax revenues in 2012;

- spent €13.2bn on locally sourced materials and services in 2012; and
- invested €1.4bn in R&D (2012), equating to 70% of all business expenditure on R&D.

- In 2012, 52% of foreign investment (164 investments overall) in the RoI emanated from the existing base of agency assisted foreign investors in the region.[1]

As a global economy the Republic of Ireland ranks highly in international performance indexes. It was ranked 10th for FDI inflows in the United Nations Conference on Trade and Development's Global Investment Trends Monitor 2014 (2013 data), placing it above developed economies such as Australia, Spain, Germany, Luxemburg and the Netherlands on this measure.

The World Economic Forum's Global Competiveness Index 2015 ranks the RoI as 25th overall (out of 144 countries) making it the 13th highest ranked European Country.[2] The RoI is ranked in the top twenty economies on a number of measures:

- Health and primary education – ranked eighth;
- Higher education and training measure – ranked 17th, scoring particularly well in the areas of secondary education enrolment (sixth) and quality of the educational system (fifth);
- Institutions – ranked 15th, placed within the top ten in the following measures Irregular payments and bribes (ninth), judicial independence (sixth), and strength of investor protection (sixth);
- Goods market efficiency – ranked 10th, scoring highly in sub measures competition (seventh), and foreign competition (fourth);
- Labour market efficiency – ranked 18th, scoring highly in the capacity to attract talent in particular (ranked 10th);
- Technological readiness – ranked 12th, scoring highly in the technological adoption (second), and FDI and technological transfer (first);
- Business sophistication – ranked 20th; and
- Innovation – ranked 20th.[3]

IBM's Global Location Trends 2014, which measures FDI globally, ranked the RoI as 27th as a global destination. This overall ranking obscures the country's performance on other measures, notably job creation from FDI where it was ranked fourth overall in

[1] Department of Jobs, Enterprise and Innovation, Policy Statement on Foreign Direct Investment in Ireland (July 2014) http://www.enterprise.gov.ie/en/Publications/Policy_Statement_on_Foreign_Direct_Investment_in_Ireland_PDF_689KB_.pdf

[2] World Economic Forum Global Competitiveness Report 2014-15, Country Profile Ireland http://reports.weforum.org/global-competitiveness-report-2014-2015/rankings/

[3] *Ibid*

2013 (a fall from second in 2012) and in average value added from investment projects where the country was ranked first in 2013.[4]

3 Historic perspectives and the role of corporation tax

Before examining the RoI's current and future FDI proposition it is worthwhile examining how the country developed as an FDI location. As part of a broader paper on the RoI's economy published in 2006 the OECD devoted a section to briefly explaining what it refers to as 'The Irish Miracle'. There is value in repeating this assessment as it provides a succinct overview of the variety of factors that underpinned the country's *'years of economic failure followed by its spectacular success from 1993 onwards'.* The OECD summarise this development as follows:

> *In some ways, the interesting question is not why Ireland boomed, but why it took so long to take off. Many of the most important factors behind Ireland's success were in place long before the economy took off in the 1990s. While it was a relative latecomer when it came to opening up trade, it made a decisive shift away from protectionist policies in the 1960s. Its commitment to education was also late, with free universal secondary schooling in place only from 1967. That should have begun to pay dividends in the early 1980s, around a decade before the boom actually began. Tax breaks for exporters and foreign investors had been in place since the 1950s. The benefits of joining the Common Market began in 1973. These included access to a wider market, the opportunity to diversify away from the UK market and of course direct financial transfers. The introduction of the single market was also important as it raised the attractiveness of Ireland as an export platform, especially because it is English-speaking.*
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> *The ground work had to be put in place before many of these factors could begin to pay off. That began in 1987, with the fiscal and monetary consolidation that aimed at bringing the deficit down from its level of more than 15% of GNP. Wage moderation played a key role. The social partnership arrangements, which delivered tax cuts in return for wage restraint, possibly helped keep wages in check but some degree of wage restraint was inevitable given how tightly integrated are the Irish and UK labour markets. Alongside the tax cuts, expenditure restraint was also important. Deregulation of key sectors also helped, especially telecommunications and the airline industry. The mid 1980s also saw a decisive shift away from a policy of fighting a rearguard action to try to save dying sectors and towards a policy of laying down the foundations for*

[4] IBM, Global Location Trends 2014, http://www-01.ibm.com/common/ssi/cgi-bin/ssialias?subtype=XB&infotype=PM&appname=GBSE_GB_TI_USEN&htmlfid=GBE03629USEN&attachment=GBE03629USEN.PDF#loaded

growth in the new industries. The focus on getting the fundamentals right played a key role in the foreign direct investment boom, especially from US multinationals. A benign external environment contributed. Foreign direct investment was encouraged by the strength of the US economy and the global demand for high-tech products. Finally, and by no means least important, have been demographic factors. Until recently, exceptionally high birth rates have made Ireland one of the youngest countries in the OECD while emigration in the 1950s and 1960s means there are fewer elderly pensioners today than there otherwise would have been. The fall in the dependency ratio has given a considerable boost to activity. All these factors have contributed to, and been magnified by, what is perhaps the most striking feature of Ireland's performance: its ability to create jobs. A highly elastic labour supply (given the stock of Irish emigrants abroad, the initial high level of unemployment and the low level of female participation) helped sustain growth.[5]

The OECD highlights a number of interrelated factors that contributed to the RoI's pre-recession performance. These factors included the corporation tax rate, but, in the OECD's assessment, this is only one of a number of factors positively impacting the country's economic development. Such factors are diverse and include deficit reduction, wage moderation, deregulation, the growth of new industries, the external economy, and the region's demography. The OECD concluded:

If there are any lessons for other countries, they are that there are no simple solutions; that not much will happen until a range of sensible policies coalesce (which means that countries cannot cherry-pick the bits of a reform agenda they like and leave out the rest); and that the catch-up process is not automatic – Ireland is a good example of Robert Lucas's dictum that "a successful theory of economic miracles should … offer the possibility of rapid growth episodes, but should not imply their occurrence as a simple consequence of relative backwardness" … As John Fitz Gerald put it, "these policies, when considered individually, may be unexciting and unimportant. However, the cumulative impact can make the difference between convergence and divergence"...[6]

In the Varney report, Sir David Varney similarly argued that a low corporation tax was one of a number of features of the RoI's economic success:

Taxation has formed a key part of the commentary on the Republic's growth performance. From 1956 to 1980, the major concession came in the form of an exemption from corporation tax for profits derived from exports. Thereafter, in order to come into compliance with the EU requirement of non-discrimination, the exemption was replaced by a preferential 10 per

[5] OECD Economic Survey, Ireland (2006) http://homepage.ntu.edu.tw/~lbh/ref/OECD/44.pdf
[6] *Ibid*

> *cent corporation tax rate applied to manufacturing and certain internationally traded services.*
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> *In 1996, the corporation tax regime came under pressure from the European Commission on state aids aspects, leading to a phased move to unify by 2003 the corporation tax rate across the economy at 12.5 per cent on all trading income. The manufacturing rate continues to apply to 2010 for existing companies. While the low corporation tax regime can be seen as attractive to foreign investors, as well as offering profit shifting opportunities… it cannot in itself explain Ireland's success. Foreign investment to Ireland has not only increased in quantity, but it has also changed in quality. Prior to the late 1980s, it tended to involve low-skill assembly and packaging work across a wide range of sectors, with few local linkages and high profit repatriation. Since then, however, it has been concentrated in technologically sophisticated sectors such as electronics and pharmaceuticals.*
>
> *The Republic's low corporation tax regime cannot explain these developments, particularly as these taxes have actually risen over time, i.e. from zero in 1958 to 10 per cent in 1981 and 12.5 per cent in 2003. Rather, the Republic of Ireland moved early in trying to establish a 'unique selling point', particularly to US investors. This combined being the lowest tax environment for manufacturing investment among advanced economies with an educated and young English-speaking population, well marketed to take advantage of its historic ties to the USA.*[7]

PriceWaterhouseCoopers (PwC), in assessing the potential impact of the devolution of corporation tax to Northern Ireland, again pointed toward a range of factors:

> *In terms of the impact of low corporation tax as a direct driver of FDI in the Republic of Ireland, we concluded that:*
>
> - *The Republic of Ireland had a low corporation tax for three decades before the Irish economy began to grow rapidly, while during the 1980s – the period of the boom in US FDI – there were no changes in the Irish tax system.*
> - *As the rate of Irish corporation tax actually increased in the 1980s, it is not therefore straightforward to invoke low corporation tax as an explanation of the timing of the boom.*
> - *It is likely that a growing skills base, a business-friendly administration, membership of the EU, operation costs and a period of aggressive and*

[7] Quoted in House of Commons Devolution of Corporation Tax to Northern Ireland (28 January 2015) http://www.parliament.uk/Templates/BriefingPapers/Pages/BPPdfDownload.aspx?bp-id=SN07078

> *sustained US investment in European markets all combined with low corporation tax as an explanation of the timing of the boom.*
>
> *• We note that, while RoI retains corporation tax at 12.5 per cent, this is now complemented by other incentives and advantages including R&D tax credits and IP incentives that have encouraged clustering and investment from specific sectors.*[8]

Again, this assessment suggests that a number of interrelating factors have influenced the RoI's economic success, particularly in relation to FDI. In the RoI government's own view the history of FDI in the country has been one of policy shifts and step changes:

> *We have made some pivotal policy shifts in the past that helped to set Ireland apart in terms of our FDI offering, for example: education reforms in the 1960s; investment in International Financial Services Centre (IFSC) in the 1980s; Global Crossing in the late 1990s; and the step change in Science, Technology and Innovation investments since 2000, among others.*[9]

The next section of this paper will look at current assessments of the RoI's FDI proposition, these assessments also point to a combination of factors. The country's deficit is falling and it is on course to meet the EU Stability and Growth Pact limit of below 3% by the end of 2015.[10]

4 Current perspectives on RoI's FDI proposition

More recent assessments of the RoI's FDI proposition – including UK Trade and Investment, the US Department of State, and joint Grant Thornton and Amárch research – again highlight the many factors that influence the country's success at attracting outside investment.

4.1 UK Trade and Investment

UK Trade and Investment comment that the RoI has *'one of the lowest 'onshore' statutory corporate tax rates in the world'* and highlight the country's *'strong economic environment', 'open economy', 'highly educated workforce'* and the *'flexibility and range of Small and Medium Sized Enterprises (SMEs) representing 99.8% of active enterprises'.* [11]

[8] *Ibid*

[9] The Department of Jobs, Enterprise and Innovation, Policy Statement on Foreign Direct Investment in Ireland (July 2014) http://www.enterprise.gov.ie/en/Publications/Policy_Statement_on_Foreign_Direct_Investment_in_Ireland_PDF_689KB_.pdf

[10] UK Trade and Investment, Country Guides Ireland (accessed 10 February 2015) https://www.gov.uk/government/publications/exporting-to-ireland/exporting-to-ireland#challenges-doing-business-in-ireland

[11] *Ibid*

They note that the RoI is home to a number of existing economic clusters that have successfully attracted leading global companies. It hosts:

- Nine out of top ten global pharmaceutical companies, the RoI is the eighth largest pharmaceutical manufacturer globally;
- The ICT sector hosts 10 of the top 10 ICT companies, and 9 of the top 10 companies developed on the Internet, it is a base for companies such as Intel, Microsoft, Twitter, LinkedIn, Facebook, Google and Dropbox;
- 12 of the top 15 medical device companies, the RoI is second largest exporter of medical devices in Europe.

In addition other existing sectors display strong performance:

- Agriculture and food and drink contribute 8% of GDP and support 160,000 jobs. The country is home to a *'large number of well-known indigenous and multinational agri-food companies'*;
- Renewable energy – UK Trade and Investment note that the RoI has increased its focus on the development of renewable energy resources and the region has a natural advantage for the development of wind and wave power.
- Construction – UK Trade and Investment estimate that the construction industry in the RoI was valued at €11bn in 2014, creating an estimated 10,000 jobs in the same year.[12]

Moreover, UK Trade and Investment notes the RoI is emerging from a challenging economic situation post-2008. Although challenges remain, including a reduction in the purchasing power of households and turbulent consumer confidence, there has been marked improvement during 2014.[13]

4.2 United States Department of State

Investment from the US into the RoI has been substantial. As of 2012, US foreign investment stock in the country was valued at $204bn, more than the US investments into China, Russia and Brazil combined. US subsidiaries based in the RoI (700 in total) directly employ 115,000 people and indirectly support employment for a further 250,000. Given the US' penetration into the RoI economy, its perspective on the country as an investment location provides a significant insight into what makes it an attractive FDI location.

The US Department of State (DoS) published an Investment Climate Statement on the RoI in June 2014. This assessment highlighted a range of factors enhancing the RoI's attractiveness as an investment location. It notes:

> *One of Ireland's most attractive features as an FDI destination is its low corporate tax rate, which has remained at 12.5 percent since 2003. Other*

[12] *Ibid*
[13] *Ibid*

> *factors cited by foreign firms include: the quality and flexibility of the English-speaking workforce, availability of a multi-lingual labour force, cooperative labour relations, political stability, pro-business government policies and regulators, a transparent judicial system, transportation links, proximity to the United States and Europe, and the drawing power of existing companies operating successfully in Ireland (a "clustering" effect). All firms incorporated in Ireland are treated on an equal basis; Ireland's judicial system is transparent and upholds the sanctity of contracts, as well as laws affecting foreign investment.*[14]

The report specifically focuses on a number of areas where the RoI is particularly attractive, including:

- Taxation – the DoS calls the RoI's low corporation tax rate one of its '*most attractive features as an FDI destination'*. They add that the government continues to *'oppose proposals not only to harmonise taxes at a single EU rate, but also to standardise the accounting methods used by EU Member States to calculate corporate taxes'.*
- Few additional restrictions on foreign investors – the DoS notes that all firms incorporated in the RoI are treated on an equal basis. There are almost no constraints preventing foreign individuals or entities from ownership or participation in RoI firms (a notable exception is the aviation which must be 50% owned by EU residents to ensure full access to European airspace). Foreign investors are not restricted in the purchase of land for residential or industrial purposes. Formal screening of FDI is common only when the investor is receipt of grants or assistance from one of the investment promotion agencies. Assistance, financial or otherwise, is often predicated on jobs and investment criteria and investors are often assessed to ensure these criteria or met. The DoS states that these processes *'are transparent and do not impede investment'.*
- Investment incentives – Regional Aid Guidelines govern the maximum amount grant aid the RoI Government can provide to companies. The aid ceilings reflect the different levels of development of business and infrastructure in areas outside of Greater Dublin. Grant Aid is currently administered by three bodies – IDA Ireland, Shannon Development, and Udaras.

  While Investors are free to choose where in the RoI they would like to locate IDA Ireland has encouraged investment in regions outside Dublin since the 1990s. To encourage the location of firms outside Dublin, IDA Ireland has developed *'magnets of attraction'*, including: a Cross Border Business Park linking Letterkenny with Derry/Londonderry, a regional Data Center in Limerick, and the National Microelectronics Research Center in Cork. IDA Ireland has supported construction of business parks in Oranmore and Dundalk for the biotechnology sector.

[14] The US Department of State, Investment Climate Report, Ireland (July 2014) http://www.state.gov/documents/organization/227418.pdf

The RoI Government's R&D strategy encourages foreign companies to engage in R&D to build the country's knowledge-intensity and innovation economy. R&D support has been provided by the Science Foundation Ireland since 2000. As part of its current strategy the Foundation is investing $200m in R&D annually. A key aspect of the RoI's R&D strategy is its 25% tax credit for qualifying R&D expenditure[15] for companies engaged in in-house R&D activity. This credit may be set against a company's corporation tax liabilities.

- Visa, work permit and residence requirements – the DoS rate the visa, residence and work permit requirements of the RoI as non-discriminatory and 'generally liberal' for US investors. Additional they note that there are *'no restrictions on the numbers and duration of employment of foreign managers brought in to supervise foreign investment projects, though their work permits must renewed annually'.*
- Property rights – the DoS note that both real and intellectual property rights are enforced. The RoI is a member of the World Intellectual Property Organisation and party to the International Convention for the Protection of Intellectual Property.
- Labour force – the DoS notes that the RoI's labour regulation is *'less restrictive compared with most continental EU countries'.* The workforce is characterised by a high degree of labour flexibility, mobility and education. The latter is seen as particularly attractive to foreign investors as it has led to the availability of a young and highly educated work-force. DoS cite the removal of tuition fees from third-level education in 1995 as one of the key driver in the emergence of highly-educated workforce. They note too that 60% of new entrants to third level education undertake business, engineering, computer science or science courses.
- Foreign Trade Zones and Free Ports – The Shannon duty-free Processing Zone provides a number of benefits to eligible companies, including duty free importation of goods from non-EU countries for storage, handling or processing; duty free exporting to non-EU countries from Shannon; and no Value Added Tax (VAT) on imported goods, including capital equipment. This is available to FDI companies as well as local firms.
- Double Taxation Agreements – he RoI has signed double taxation agreements with 70 countries[16]. These agreements, which generally cover corporation tax, income

[15] Qualifying R&D activities must be: systematic, investigative or experimental activities; in the field of science and technology; involve one or more of basic research, applied research and/or experimental development; seek to achieve scientific or technological advancement; and involve the resolution of scientific or technological uncertainty.

[16] The list is as follows Albania, Armenia, Australia, Austria, Bahrain, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, Canada, Chile, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Hong Kong, Hungary, Iceland, India, Israel, Italy, Japan, Korea (Republic of), Kuwait, Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Montenegro, Morocco, Netherlands, New Zealand, Norway, Pakistan, Panama, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Arab Emirates, Ukraine, United Kingdom, United States, Uzbekistan, Vietnam and Zambia.

tax and capital gains tax, seek to encourage investors that would be otherwise put off by double taxation[17].

- Corruption – the DoS does not view corruption as a problem for FDI investors.
- Transparency of the Regulatory regime – in the DoS view, the RoI *'employs a transparent policy framework that fosters competition between private businesses in a non-discriminatory fashion'.* This ensures that FDI investors get the same treatment as national enterprise in their dealing with the government.
- Efficient Capital Markets and Portfolio Investment – the DoS states that RoI capital markets and portfolio investments *'operate freely, and there is no discrimination between Irish and foreign firms'.* It also notes that RoI's successful exit from Troika programme has led to the country re-entering sovereign debt markets and obtaining lower interest rates than it did prior to the economic crisis.[18]

4.3 Grant Thornton and Amárach Research

Joint research by Grant Thornton and Amárach Research published in July 2014, surveyed *'senior level executives and key decision makers in Ireland and North America'* to identify the factors that positively contribute to the county's *'reputation as a place to do business'*. The research used the results of these surveys and quantitative data to highlight positive and negative factors impacting the country's current FDI proposition.[19]

Survey respondents were of the view that the *'12.5% corporate tax rate continues to be A fundamental pillar in Ireland's FDI offering'.* Significantly they added that the *'predictability of the rate is as important as the rate itself'*. The report highlights a number of other attractions of the RoI's tax regime:

- The holding company regime was seen to compare well other offering globally;
- Large network of double taxation treaty agreements;
- The Research and development tax credit;
- Intellectual property (IP) tax regime (IP income qualifies for the 12.5% rate of corporation tax and companies may claim a tax deduction for the capital cost of the IP); and
- A tax exemption on income and gains for investment funds regardless of where their investors are resident.[20]

[17] Double Taxation Agreements or Treaties are defined as an agreement between two or more countries that reduces the amount of tax that a international worker or company must pay, so they do not have to pay tax twice on the same income http://dictionary.cambridge.org/dictionary/business-english/double-taxation-treaty

[18] The US Department of State, Investment Climate Report, Ireland (July 2014) http://www.state.gov/documents/organization/227418.pdf

[19] Grant Thornton and Amárach Research, Foreign Direct Investment in Ireland: Sustaining the success (2014) http://www.grantthornton.ie/db/Attachments/Grant-Thornton-Foreign-Direct-Investment-in-Ireland_F.pdf

[20] *Ibid*

In the area of ‘people talent’ respondents expressed a view that the RoI was open to skills from elsewhere in the EU, had a higher proportion of young people with higher education qualifications than other EU countries, provided access to a local pool of skilled talent, and enabled them to attract key mobile staff. Conversely, employers expressed concern that a skills gap (between supply and demand) may impact their ability to grow their business. Businesses were open to recruiting skilled individuals from elsewhere in the EU and provided positive feedback on government measures to bridge skill gaps. There was additional concern, however, that the personal tax regime made it difficult to attract senior staff to the RoI. The report concluded that the RoI’s:

> *…people talent is a key differentiator when it comes to organisations making a decision to invest* [there]. *The country’s world renowned education system and educated work force with a perceived ‘can do’ attitude are all factors which combine to endear Ireland to potential investors’*.[21]

In the area ‘Infrastructure and support services’ the RoI was deemed to offer advantages to investors through its location in and membership of the EU, which provides access to up to 500 million potential customers and 28% of global GDP. Additionally, the RoI’s status as the only country within the Eurozone where English is the principle language was viewed as a *‘distinct advantage’,* not least because membership of the Eurozone reduces costs and risk associated with currency exchange for companies who chose it as a location of European operations. Other conclusions in this area, both positive and negative, include:

- The RoI banking and financial infrastructure is well developed, with half of the world’s top banks and insurance companies have operations there;
- Dublin’s attractiveness as a centre of financial services industry has declined in recent years following the financial crash;
- The availability of commercial property has suffered from a lack of development over the last number of years, resulting in a shortage in Grade A space. Supply is however, expected to increase;
- Transport, communications and property infrastructures are challenges to FDI, and can limit investment outside Dublin. These issues are being addressed however.[22]

On the issue of Intellectual Property the study concluded:

> *Ireland’s strong and internationally recognised IP regime and the country’s substantial research and development support offering greatly contribute to the island’s continued in attracting and retaining business.*[23]

On the cost of doing business the report notes despite the cost of doing business declining significantly during the economic crisis, costs have been increasing since the

[21] *Ibid*
[22] *Ibid*
[23] *Ibid*

end of 2012. The cost of labour, transportation, utilities and property were viewed as high. In addition, the RoI has higher interest rates compared to the EU average on a range of credit products increasing the cost of credit for businesses.[24]

There are a number of positives, however. Labour productivity, which provides an indication on return of investment on human resource by employers, was amongst the highest in the OECD. The country's employer social security contributions were among the lowest of OECD and EU countries. Despite a high cost of living, the RoI quality of living is ranked highly – Dublin was, for example, ranked 34th of 223 cities (above London and Tokyo) in the Mercer's Quality of Living Ranking.[25]

5 Future strategy

The Department of Jobs, Enterprise and Innovation released a 'Policy Statement on Foreign Direct Investment in Ireland' in July 2014. This statement sets out the government's FDI policy to 2020, a policy that has five main aims:

- Maintaining the RoI's strong performance in the context of intensifying competition globally for investment and talent;
- Building a sustainable and diverse FDI portfolio in terms of sectors and activities and source markets;
- Meeting the ecosystem requirements of globalised multinationals and the mobile young economy;
- Deriving the optimum economic returns for Ireland across a variety of cross-border modes of investment, including greenfield projects, reinvestment, start-ups and M&A; and
- Deploying international best practice in policy execution and gain system wide engagement from relevant partners in policy implementation and investment promotion.[26]

The strategic approach to achieving these aims recognises that:

> *Ireland's relative cost competitiveness, corporate tax rate and available direct firm level financial supports remain critically important - but in reality they are no longer aspects that will substantially differentiate Ireland's offering for FDI over the longer term. We need both to maintain a*

[24] *Ibid*
[25] *Ibid*
[26] The Department of Jobs, Enterprise and Innovation, Policy Statement on Foreign Direct Investment in Ireland (July 2014) http://www.enterprise.gov.ie/en/Publications/Policy_Statement_on_Foreign_Direct_Investment_in_Ireland_PDF_689KB_.pdf

> *competitive offering in these areas and at the same time redouble efforts to develop and reinforce other aspects to truly differentiate Ireland's offering.*[27]

As such, the strategy is focussed on developing:

- Talent – by ensuring the region is an 'internationally competitive location for talent attraction and growth';
- Place-making – creating 'competitive, dynamic and globally connected city regions as attractors of investment, and position Dublin as the leading hotbed for start-ups, fast growing firms and talent'; and
- Connected world leading research – to ensure the RoI is 'recognised as one of the most enterprise aligned science, technology & innovation systems in the world, renowned for excellence in research, connecting and collaborating with enterprise, delivering sustainable economic impact, and attracting investment and exceptional talent'.[28]

Within the strategy FDI is viewed as a means of wider economic growth, specifically fostering:

- Job and wealth creation;
- Productivity and value added;
- Development of capabilities and critical mass in key sectors;
- Innovation;
- In-direct job and supply chain creation;
- Access to global value chains for locally owned companies; and
- Ensuring that FDI contributes to regional economic development.[29]

Annex 1 summaries the RoI's strategic approach to FDI promotion to 2020. The strategic approach focuses on a number of key areas:

- Sectors and activities – interventions in this area will seek to further expand and transform the country's top performing sectors and to insulate them from external shocks. It will also see the country positioning itself for new opportunities in areas where it has the potential for greater competitiveness, such as agri-food and clean-tech.
- Source markets – the strategy recognises that the US has been the source of a significant portion of FDI in the RoI (70% of FDI related employment is from US companies). It also notes that European FDI is the second greatest source of FDI. The interventions in this area will seek to increase the diversity of FDI source markets with a particular focus on China, India and Japan.

[27] *Ibid*
[28] *Ibid*
[29] *Ibid*

- Facilitating different modes of investment – interventions here will seek to maintain a diversity in modes of investment including direct investments, mergers and acquisitions, partnerships between research and higher education institutions, and indirect investments through sovereign wealth funds, venture and development funds, and state owned enterprises.
- Nurturing key differentiators – the focus here is on the three elements identified as differentiating the RoI's investment proposition from others (as noted above, talent, place making and connected world leading research). Interventions include:
  - Talent – Continuing to nurture talent so that it meets the needs of an advanced economy and that facilitates FDI, entrepreneurship and innovation. The strategy recognises that nurturing the talent pool includes not only developing talent but attracting and retaining talent. The government will monitor supply and demand of skills and intervene were appropriate. To attract talent the government will focus on quality of life, effective place making, ease of mobility, cost of living and personal taxation.
  - Place making – interventions in this area are based on the recognition that city regions are the focal points for internationally mobile investment. Place-making involves the interaction of policy makers and stake holders in a range of areas (planning, architects, business, infrastructure, etc.) to ensure to increase the attractiveness of regions as places to live, work and invest. The focus is two-fold enhancing the value proposition of the regions through place making investment (for example national roads infrastructure) and maintaining and enhancing Dublin's attractiveness.
  - Connected world leading research – the rationale for interventions in this area is that a dynamic innovation system will prove attractive to investors seeking competitive advantage in the global market. Interventions in this area will seek to build on successes (such as world ranking for scientific research in molecular genetics and genomics, immunology and materials research) by embarking on a Research Prioritisation Exercise and the development of a Science Technology and Innovation policy to 2020.
- Sector ecosystem development – the purpose of interventions in this area are to encourage FDI by strengthening the sectoral ecosystem, cluster policy and governance structures that support the enterprise base. This includes interventions such as: 'pump-priming' self-sustaining, innovative clusters and ecosystems in priority areas; ensuring a proactive, joined-up approach to identifying and addressing ecosystem needs; re-skilling the unemployed in areas of relevance to sectoral needs; targeting investment promotion towards areas of strategic importance to the growth of clusters; and optimising inter-firm connections.
- Cost base – interventions here will seek to increase cost-competiveness (as opposed to low cost) particularly in relation to labour, energy business and professional service costs.

- Infrastructure – interventions here will seek to improve efficiency, enhance productivity and lower costs through investments in public transport, national road networks and urban transport.
- The corporate tax – the government will seek to maintain 12.5% tax rate and to work with the OECD in the area of Base Erosion and Profit Shifting (BEPS)[30].
- Property Solutions – in this area the government, IDA and National Assets Management Agency will continue its work to ensure that potential investors are offered property solutions.
- Investment Promotion – interventions here will be aimed at maintaining the effectiveness of investment promotion and funding carried out by IDA Ireland and sister agencies. This will be achieved in part by *'building relationships and close cooperation with other agencies, State bodies, and Government Departments at national, regional and local level'.*
- Financial Incentives and funding – there are three factors motivating intervention in this area: the recognition foreign companies report that financial incentives influence their investment decisions; the reality that State Aid Funding is becoming more restrictive under the modernisation of State Aid Guidelines, particularly in light of Regional Aid changes; and the desire to exploit other funding sources to minimise the impact of these change. DJEI will drive a national approach to optimising the value of EU funds in the face of this new reality.
- Effective policy execution – increased global competition has made it increasingly difficult for countries to differentiate themselves from competitors. To maximise the impact of interventions the RoI government will seek to enhance and demonstrate the following traits within their policies: strategic long-term objectives; system-wide engagement; effective partnership and collaboration; and high-level political commitment.[31]

6 Discussion and conclusions

Looking at the RoI FDI proposition through the lens of its historical development, perspectives on it current offering, and its future direction shows that a lower rate of corporation tax has been (and will continue to be) a significant, but not the only, pull factor for businesses. It is perhaps telling that a government department from of the RoI's largest investor, the US, explicitly states that '*One of Ireland's most attractive features as an FDI destination is its low corporate tax rate'.* Similarly, the RoI's resistance to European Commission attempts to harmonise corporation tax rates across the EU suggests that it continues to see it as competitive advantage.

[30] The OECD's work on Base Erosion and Profit Shifting project represents a co-ordinated international effort by the G20 and OECD member countries to tackle the issue of the amounts of corporation tax being paid by multinational corporations. It is not focussed on the rate of corporation tax charged by jurisdictions and the outcome of these discussion will not impact the RoI's 12.5% rate

[31] *Ibid*

It is equally significant, however, that all of the commentaries outlined above stress that there is more to the RoI's FDI proposition than the rate of tax it offers. Perhaps the most explicit statement to this affect is the government's own strategy for FDI up to 2020 which argues:

> *Ireland's relative cost competitiveness, corporate tax rate and available direct firm level financial supports remain critically important - but in reality they are no longer aspects that will substantially differentiate Ireland's offering for FDI over the longer term.*[32]

As well as maintaining the country's competitive advantage in the area of tax, financial support and relative cost, this strategy seeks to bolster other strengths and address weakness with a view to '*truly differentiate'* the RoI's FDI proposition from that of its competitors.

The country's advantages are identified throughout section four, which provides outside investor perspectives on the area as FDI location. These include:

- The Low corporation tax is complimented with tax incentives for specific activities, such as the country's R&D tax credit.
- These are further complimented by financial incentives such as grant aid. Although changes to State Aid rules will limit the effectiveness of grant aid in the future the RoI Government is currently drawing up plans to maximise other EU funding to mitigate the impact of these changes.
- A strong economic environment that has shown resilience in the wake of the 2008 financial crisis. The RoI has successfully exited the Troika programme, its deficit is falling and it is on course to meet the EU Stability and Growth Pact limit of below 3% by the end of 2015.
- It is home to a base of already existing successful industry sectors – such as ICT and life-sciences - and an established base of FDI, including strong links to the US, which continues to invest in the country.
- The country has a flexible, mobile and educated workforce. In addition 60% of new university entrants undertake courses in business, engineering, computer science or science. Whilst skills-gaps exist, the country and its businesses are open to securing skills from elsewhere in the EU.
- The country's regulation framework ensures there are few additional restrictions on foreign investors, ensuring they are treated equally to local business (for the most part, although there are often job creation criteria imposed on investors who receive grant funding).
- The country's property rights regime, visa, work permit and residence requirements, Double Taxation Agreements, corruption regulations, the transparency of the

[32] *Ibid*

regulatory regime and its capital markets and portfolio investment are all viewed as conducive to FDI.

- Whilst the cost of doing business is high in some areas – such as labour, transportation, utilities and property - the country offers is cost competitive in other areas. Labour productivity, is amongst the highest in the OECD and employer social security contributions were among the lowest of OECD and EU countries.

Looking at the future direction of travel of the RoI's FDI proposition, the country's strategy to 2020 demonstrates a desire to build upon existing strengths and a reluctance to rest upon achievements. In this respect the strategy seeks to:

- Expand the top performing sectors and increase competitiveness in other sectors,
- Increase FDI inflows from under represented regions, while maintaining the levels of investment from the US and Europe;
- Diversify FDI by facilitating different mode of investment;
- Enhance the Country's talent pool by developing and attracting the skills necessary for advanced economy that facilitates FDI, entrepreneurship and innovation;
- Continue to develop Dublin city and the regions to attract investors and talent;
- Build upon successes in the area of R&D and innovation;
- Develop the support to sectors and clusters by enhancing sector ecosystems;
- Increase cost competiveness, invest in infrastructure, and ensure investors have a range of property options;
- Maintain the effectiveness of investment promotion agencies and optimise the drawdown of EU funds to mitigate the negative impacts of changes to State Aid rules; and
- Continue to offer 12.5% rate of corporation tax, while working with the OECD on BEPS.

Overall, the RoI case demonstrates a holistic approach to FDI attraction. The country is viewed to offer a package of benefits to investors and its strategic approach to securing future investment seeks to maintain current advantageous whilst enhancing other areas. This is consistent with the findings of Research and Information Service's previous case study analysis on the FDI propositions of various EU regions (NIAR 20-15), i.e. that regions with strong FDI propositions promote themselves based on their overall investment offering rather than emphasising a particular factor or factors of that offering.

It is also consistent with the OECD's 2006 finding:

> *If there are any lessons* [from the RoI experience] *for other countries, they are that there are no simple solutions; that not much will happen until a range of sensible policies coalesce.*[33]

[33] OECD Economic Survey, Ireland (2006) http://homepage.ntu.edu.tw/~lbh/ref/OECD/44.pdf

Annex 1: RoI's FDI Strategy to 2020 summary

Strategic Priority	Areas/Sectors/Agencies/etc.	Actions
Sectors and activities	○ Life Sciences ○ ICT ○ Financial Services ○ Content & Consumer Business Services ○ Engineering ○ Food	○ Build the RoI's FDI strengths in sectors and activities, supported by national level sector strategies, continued focus on company transformation, and enhanced levels of cross-agency information and market intelligence sharing so that opportunities within and across these sectors are identified at an early stage. ○ Target increased levels of FDI from firms addressing the Food and Beverage markets including ingredients, consumer foods, nutrition and nutraceuticals, and work with firms already established here to broaden their corporate mandates, including RD&I and HQs. ○ Target FDI that can commercialise and exploit in Ireland those areas prioritised for research investment. ○ Seek out new FDI opportunities for the RoI- that will emerge from niche areas and new market segments where we have little activity currently, and/or where FDI can address business environment gaps, further strengthen the manufacturing ecosystem, promote increased productivity, and stimulate innovation in the RoI economy.
Source Markets	○ US ○ Japan ○ Germany ○ France ○ UK ○ China ○ India	○ Strengthen the RoI's relationship with the US as our principal source market, both for new business and reinvestment opportunities and capture emerging opportunities in European markets. ○ Further diversify the FDI portfolio, tapping into sectoral opportunities arising from high-growth, emerging and exploratory markets based on the tiered approach set out in the Review of the Trade, Tourism and Investment Strategy 2010-2015. ○ Position the RoI to take advantage of emerging opportunities arising from re-shoring/next-shoring corporate strategies of foreign and indigenous multinationals. ○ Continue to monitor developments in relation to international trade negotiations such as the Transatlantic Trade and Investment Partnership (TTIP) and ensure that Ireland is positioned to take advantage of potential FDI related opportunities arising.
Facilitating different modes of investment	○ Direct Investments ○ Mergers and Acquisitions ○ Partnerships with research and Higher Education Instituions ○ Indirect investments through sovereign wealth fund investments, venture and development funds, and state owned enterprises.	○ Ensure that the RoI continues to provide an open and attractive environment for the full range of alternative modes of inward investment that can deliver net economic benefits for Ireland, including job creation, new investment, innovation, productivity and scale.

Strategic Priority	Areas/Sectors/Agencies/etc.	Actions
Nurturing key differentiators	○ Talent ○ Place making ○ Connected world leading research	○ Develop and implement a National Talent Drive that reinforces RoI's reputation for the quality of its people and establishes the region as a hub for talent. Underpinned by a National Skills Strategy. ○ Human capital development – ensuring the education system is delivering to specific skills demand, nurturing higher-order skills across all levels of education, and implementation of structural reforms in higher & further education and training sector and apprenticeships. ○ Broader factors to attract and retain mobile talent – incl. personal taxation, visas, work permits, cost of living and place-making aspects. ○ Ensure city regions provide a credible proposition in a global context, leveraging regionally based assets and potential; supported by: Cross agency Regional Enterprise Development Frameworks for each of the NUTS III regions, which will set out regional enterprise strengths and investment needs to achieve their potential. These will provide strong direction in the preparation of RSESs under the Local Government Reform Act 2014 and the National Spatial Strategy. ○ Address priority place-specific infrastructure deficits that are impacting negatively on the attractiveness of city regions, through orienting the Public Capital Programme toward investments that support business needs, progressing the development of an urban regeneration investment strategy, and targeting European investment/development funding over the 2014-2020 period. ○ Enhance the Dublin City Region - as a place to live, invest, grow a business, and nurture innovation. Instigate a coordinated, partnership approach to forward planning and facilitation of Dublin's start-up ecosystem. The new National Spatial Strategy will explicitly set out an urban policy that prioritises accelerated investment in Dublin. ○ Reinforce enterprise-aligned scientific excellence with impact in line with the Research Prioritisation Exercise providing research and knowledge for enterprises of today and opening future opportunities for investment. ○ Set out the strategic direction for our Science Technology and Innovation policy to 2020, to include ambitious targets to grow a defined number of national research centres that will conduct world leading research of relevance to key growth sectors in Ireland.

Strategic Priority	Areas/Sectors/Agencies/etc.	Actions
Sector Ecosystem Development & clustering policy	○ Financial services ○ Software ○ digital content and social media ○ Film ○ Tourism ○ Green tech ○ Marine ○ Food	○ Build globally competitive clusters and ecosystems for key sectors, combining strong RoI owned and foreign firm activity, sub-supply, research and supportive regulation etc., and specifically implement a more intensive and systematic approach to develop dynamic national sector strategies, involving the full range of stakeholders across the system, and including the appointment of a sector specific Cluster Development Manager/Team to drive the initiative across the system.
Emerging companies & Mobile entrepreneurs	○ Existing FDI base and talent base, particularly ICT/consumer interent space and life sciences	○ Position RoI as a leading location for start-ups and fast growing businesses - develop and promote the country's value proposition and IP framework; provide structured access to Enterprise Ireland programmes (such as internationalisation, sales and marketing, and leadership; an enhanced visa regime); extend the tech visa to other areas of unmet demand in high skill areas; promote innovation vouchers and Science Foundation Programmes; and promote place and quality of life aspects. ○ Work with cities and regions to develop support eco-systems such as Activating Dublin, IT@Cork and others where appropriate. ○ Enhance RoI's tax environment in an international context to attract and retain mobile entrepreneurs and emerging companies.
Cost base	○ Labour costs ○ Energy cost ○ Business and professional service costs	○ Attain a top 5 international competitiveness ranking in terms of costs of doing business and costs of living by implementing the actions necessary to realise structural reforms in the areas identified by the National Competitiveness Council and Forfás, and by undertaking quarterly monitoring of progress by Government.
Infrastructure	○ Public transport ○ Urban transport ○ National road network	○ The Department of Public Expenditure and Reform will undertake a review of capital expenditure priorities for the period 2015-2019. Capital projects will be prioritised to underpin development and growth of productive sectors and place making objectives.

Strategic Priority	Areas/Sectors/Agencies/etc.	Actions
Corporation Tax	○ Corporation tax	○ Maintain a competitive corporate tax regime that rewards productive investment, including: a continued focus ensuring certainty, stability and predictability for investors; and commitment to maintaining the current 12.5% corporation tax rate. ○ Continue to engage with the OECD Base Erosion and Profit Shifting process, the European Commission and other international fora on international tax issues.
Property Solutions	○ Provision and availability of sites and building solutions for FDI	○ Work with market players to provide attractive property and site solutions in regional locations so as to ensure that potential investors are offered a range of property solutions across regions, adopting a partnership approach to facilitate speedy establishment; ○ Looking forward to 2020, working with other stakeholders, continue to assess and anticipate the changing site and property needs of companies and sectors.
Investment Promotion	○ IDA Ireland ○ Enterprise Ireland ○ Science Foundation ○ Connect Ireland ○ EU State Aid modernisation	○ IDA Ireland will develop its new strategy covering the period to 2020 within the context of Ireland's overarching FDI policy framework. ○ Specific actions aimed at further enhancing agency collaboration will be articulated within the strategies of each agency. ○ Promote greater enterprise engagement in EU funding programmes including for example, EU Horizon 2020, Innovation and Erasmus funding etc
Policy Execution	○ Policy Development ○ Strategic long-term objectives ○ System-wide engagement ○ High-level political championing	○ IDA Ireland and the other development agencies involved in the promotion of the RoI for investment, in conjunction with DJEI, should articulate development requirements in line with our current and emerging FDI target areas (sectors/activities, source markets, alternative modes of investment). ○ DJEI will be the lead advocate driving prioritised delivery of the policy agenda, working with partners across the Government system. ○ The Action Plan for Jobs process will continue to be an important mechanism for delivery on improving Ireland's attractiveness for FDI, on an annual basis.