What does FDI do for Ireland?

Introduction
The purpose of this paper is to analyse the impacts on Ireland from Foreign Direct Investment (FDI) by multi-national companies (MNCs) over a period of approximately 50 years and to look at where Ireland needs to go from here in its engagement with FDI.

The American Chamber of Commerce Ireland (ACCI) has produced an authoritative and comprehensive analysis of the US-Ireland FDI relationship extending back 50 years. It is an important research document that explains how advanced Ireland has become through FDI and how FDI is more important than trade in goods in developing long-lasting inter-economy relationships. Analysis of it indicates a well-trodden path for Ireland to follow in engaging much more meaningfully with the emerging economies.

With globalisation, FDI, which includes greenfield development and mergers and acquisitions abroad (M&A), has superseded international trade in direct exports and imports as the most important mechanism for international global economic integration. The feature of globalisation is that firms actually do more business in the global market place by being on the ground, embedded in host economies via FDI and foreign affiliate companies through M&A.

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1 Joseph P Quinlan; Built To Last The Irish-US Economic Relationship; American Chamber of Commerce Ireland 2011
Ireland – US Experience

In the Ireland–US context, the difference between US direct trade - exports of goods and services to Ireland (c.$34 billion in 2010) and estimated FDI ‘foreign affiliates’ sales in Ireland ($272 billion in 2010) reveals the extent of influence of FDI compared to direct trade.

The actual importance of trade between the US and Ireland, accounted for by imports and exports, is dwarfed by the actual transfer of goods and services within companies based in the US and in Ireland and between US companies in Ireland. FDI sales activity by companies into the Irish economy is 8 times the size of exports to Ireland from the US.

Trade in services is often considered to be hidden trade, whereas the trade in goods is easily recorded. The normal pattern is that export of goods between nations exceeds services. An exception is the trade between the US and Ireland: -

- In 2009 US export of goods to Ireland ($7.5 billion) were less than 30% of US service exports to Ireland ($25.3 billion);
- Ireland was the 4th largest global market in the world for US service exports in 2009;
- These services have a large intra-firm component between American firms, affiliates and parent firms.

US firms have invested more capital in Ireland since 1990 (c.$189 billion cumulative) than in the four BRIC nations combined (c.$159 billion). US investment is accelerating and concentrating in Ireland:

- Cumulative US FDI to Ireland in the first decade of this century was c.$121 billion - 4 times greater than US flows to China; 7.5 times larger than to India and 6 times larger than to Brazil;
- In 2008 and 2009 US FDI to Ireland (c.$30 billion per annum) was greater than the total US investment in Ireland over the entire 1990s;
- Ireland’s share of total US investment stock in Europe rose from 5.2% in 2000 to 8.7% in 2010;
Ireland accounted for c.10% of total US assets\(^2\) in Europe in 2010, up from c.3.7% in 2000 and 2% in 1990; The value of US assets in Ireland in 2010 was estimated at $700 billion.

Ireland was one of the few European nations that attracted an increase in the number of FDI projects in 2010: -

- The number of FDI projects in Ireland in 2010 totalled 147, an increase of 18% on the previous year;
- New projects in other European countries reduced significantly, in Germany (-39%); UK (-11%) and France (-17%);
- US FDI inflows totalled $17.7 billion in the first half of 2011, a rise of 49% on the same period in 2010.

Whereas most US affiliate companies in EU countries receiving FDI primarily trade for customers within those economies, the performance of US affiliate firms in Ireland is overwhelmingly export orientated.

Ireland has served as a strategic beachhead to the EU for US multinationals and for other multinationals interested in accessing the EU market in the most competitive and efficient manner possible.

US affiliate companies account for over one quarter of Ireland’s GDP.

The nature of the US FDI transition to higher-level activities that has occurred in Ireland over the past decade has resulted in an offset in the decline in manufacturing employment through the expanded employment in higher-value service activities.

The US FDI emphasis is now on knowledge-based, service-led activities includes R&D, trials, process development and related activities. US-funded R&D in Ireland totalled c.$1.6 billion in 2010.

\(^2\) Assets is a wider definition than investment stock, including goods and materials involved in all trade.
The spin-off from US companies locating in Ireland is the linkages to local firms and the transfer of knowledge, technical skills, managerial practices, philosophy, product development and provision of services, which have increased the technological capabilities and diversification of indigenous firms and their global capability.

FDI employment, direct and indirect, has helped to soften the impact of the domestic economic crash in Ireland since 2008. While foreign enterprises in Ireland have cut their Irish workforces over the past few years, the cuts have not been as deep as job losses at Irish-owned firms. Forfas figures indicate:

- The number of workers on payrolls of Irish firms in 2010 was down 17.3% from 2007 levels;
- Foreign-owned companies reduced workforces by c.11% over the same period.

**Outward FDI from Ireland**

The FDI traffic in the Irish economy is not only one-way:

- In 2010 Ireland’s stock of outward FDI by Irish firms around the world totalled $349 billion, well above the level of Ireland’s inward stock of FDI at $247 billion;
- The rapid expansion of outward FDI by Irish firms in 2009 and 2010 may reflect expatriation of resources by indigenous firms, which is not necessarily a positive indication for the domestic Irish economy;
- The overseas investment stock of Ireland is concentrated in Europe (83%), US (12%) and Asia (4%);
- The value of assets of Irish affiliates (bank and non-bank) in the US totalled an estimated $160 billion in 2010;
- The profits of Irish affiliates in the US totalled $3.3 billion in 2010, which represents income available to Irish based parent companies;
- Irish firms have been quite aggressive in expanding their global linkages via investment over the past decade. The ratio of outward FDI was 22% of inward in 2000 and was 141% of inward in 2010;
- Total employment among Irish affiliate companies is estimated to have increased to 120,000 US workers in 2010. This figure covers bank and non-
bank employment, with banking employment being significant. The equivalent US FDI employment in Ireland is c.100,000 bank and non-bank employees.

Similar to American inter-firm activity in Ireland, foreign affiliate sales are now the primary means by which Irish firms deliver goods and services to US customers, exceeding the value of directly exported goods from Ireland.

Ireland’s Export Performance

The OECD has noted that more than 90% of the manufacturing output of all foreign affiliates in Ireland is for export, which demonstrates the global nature of FDI in Ireland. The influence of FDI company exports is demonstrated in the current export performance, which positions Ireland as one of the world’s top exporters of goods and services, in the $100bn+ p.a. club.\(^3\)

Ireland is an open economy and ranks as: -

- One of the world’s leading exporters of high and medium technology products;
- Strong in life science exports;
- Europe’s larger per capita exporter of medical devices;
- Europe’s second largest exporter of medical devices in absolute terms
- Strong in Service exports, which currently account for 45% of total exports from Ireland.

The export performance by the Irish economy in 2011 reflects that the reduction in domestic costs has made up for the inability to effect an adjustment via currency devaluation, due to Ireland’s membership of the Euro. Ireland has restored its global competitiveness via internal and domestic adjustments.

The statistics indicate that Ireland has exhibited its ability to adapt and change in a rapidly changing global economy, which means that the Irish economy is likely to remain one of the most competitive in the world.

\(^3\) Actually, $200+ in 2011 – (€171bn@1.3€/$ = $222bn) – SCA calculation.
Foreign Direct Investment Performance 2011

Ireland has over 5 decades of significant engagement in FDI primarily sourced from the major economies of the world. In the end of year statement by Barry O’Leary, CEO IDA Ireland\textsuperscript{4} he indicated that IDA companies in Ireland employ about 140,000 (estimate figure) people directly, most in high-end jobs, and 240,000 people indirectly.

Performance in 2011, with over 13,000 new jobs created, topped the performance in 2010, when IDA-backed firms created 11,000 new jobs, well in excess of the 4,615 jobs generated in 2009\textsuperscript{5}.

There is a movement from low-end manufacturing and assembly jobs into high-end jobs. There is a very substantial increase in numbers of high-end, better paid, jobs that have replaced lower paid manufacturing/assembly jobs.

IDA, over the last number of years, has opened international offices in places like India, China and Moscow. Investment from these markets will be additional business. It will not replace investment from the US, which currently supports approximately c.95,000 of the 146,000 IDA company jobs in Ireland.

Currently, overall FDI accounts for: -
- A total of 250,000 jobs (IDA and non-IDA, such as IFSC and independent investors);
- That is 1 in every 7 jobs in Ireland;
- €19Bn spend on Irish sourced goods and services;
- €6.9Bn in payroll

In 2011 IDA secured\textsuperscript{6}: -
- 148 new investments, with 61 new companies investing in Ireland for the first time;

\textsuperscript{4} Irish Times, Business Agenda, Friday December 23 2011
\textsuperscript{5} IDA Ireland End of Year Statement 2011, issued 5\textsuperscript{th} January 2012.
\textsuperscript{6} IDA Ireland End of Year Statement 2011, issued 5\textsuperscript{th} January 2012.
Exports from IDA supported companies, as €115Bn, represented 70% of Irish exports;
There was c.€700million new spend on R&D;
Of the existing client investments, 46 were expansion and diversification and 41 were in R&D. These types of investments tend to bind these companies within the Irish system and make them less footloose;
28% of investments were located outside the GDA and Cork;
26% of investments came from non-US corporations, underlining the continuing strength of US investments;
€115Bn or over 70% of Irish exports through IDA client companies.

**Comment:** - IDA achieved only 28% of investments located outside GDA and Cork compared to a target of 50% of new investments located outside the main cities.

IDA Regional Strategy is aligned with the NSS Gateway structure and is based on the following: -

- Committed to target 50% of investments outside Dublin and Cork;
- Investment in Infrastructure has made Ireland smaller;
- Regions focused on Gateways provide critical mass that FDI investors demand: - labour force size, skills, research capability, business services, infrastructure;
- Development in Gateways delivers for the wider region;
- Target investments from non-traditional sources of FDI;
- Maximise impact from Strategic Investment Projects.

**Irish Exports 2011**

Full year exports of goods and services increased by just under 5% to €171 billion in 2011. The annual result masks a reduced performance in the second half of 2011 and some stark results in relation to economic engagement with the most dynamic economies.

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7 John O’Brien, Director IDA, FDI and Regional Development paper to RSAI Conference, September 2011.
8 Irish Exporters Association; 2011 End of Year Report; 9th January 2012.
Merchandise exports increased by 3.5%, substantially influenced by the pharmaceutical / chemical sector, which represents 61% of total merchandise exports and the agri-business sector, with agri-food exports growing by more than 10%.

Services account for 46% of total exports from Ireland, with computer services growing by 12% in the year. Services grew overall by 6.6%, compared to 3.5% for merchandise.

Just 2% of Ireland’s exports went to the BRIC countries in 2011. There was strong growth in exports to Russia (+41%); to India (+39%); and to Brazil (+13%). Trade with Brazil, Russia and India is minimal with cumulative exports of approximately €1 billion in 2011(0.6% of total exports).

Irish exports to China fell by almost 3.8% in 2011. In the overall export value of €171 billion from Ireland in 2011, China (Euro €2.4bn) represented 1.4% of Irish exports in 2011, which exposes the poor performance to China as exceptional.

In comparison EU 27 countries: -

- Sent 20.8% of their exports went to BRIC countries compared to 2% of total exports from Ireland;
- Increased their exports to BRIC markets by 22.5% on average in the first 9 months of 2011 whereas Ireland’s exports increase by less than 4% in the year;

2011 saw an 11% loss of exports by value to Germany.

Overall, Ireland performed moderately in export growth in 2011, compared to EU countries. It lost very significant ground in trade with the most dynamic economies in the global market, Germany and China.
Chinese Investment in Europe

Britain is the most popular European destination for Chinese inward investment by value and Germany is the most popular destination by number of projects in the last decade.⁹

The Chinese rate the UK for having:

- One of the most open economies in the world;
- A welcoming attitude to investment;
- A stable regulatory and legal environment;
- Bridgehead to the US;
- State planning via the National Infrastructure Plan.

The UK Chancellor of the Exchequer has visited China in January 2012 to highlight the range of infrastructure projects into which the Chinese could invest via the China Investment Corporation (CIC) and the Industrial and Commercial Bank of China (ICBC).

The UK is ahead of France and Germany in securing direct inward investment, compared to commercial transactions. The UK sees direct investment as a launching pad for commercial engagement.

China is likely to invest in low-risk physical assets that carry steady returns as opposed to purchasing sovereign bonds.

Future Engagement with Developing Economies

The ACCI acknowledges that the developing nations, with China at the forefront, are now the principal drivers of the global economy:

- In June 2011 nearly 80% of the world’s total foreign exchange reserves were held by the developing nations ($7.5 trillion);
- As the technological capabilities of the developing nations continue to rise, these nations have moved from imitation to innovation;

The key areas being developed in the emerging economies are energy, mining, steel, automobiles, telecoms, power generation, alternative energies, and finance;

China is aggressively pursuing its own standards in key sectors such as, wind turbines, solar power and electric cars;

Levels of 3rd and 4th level education engagement are rising rapidly in the developing nations, where education is becoming a strategic imperative driving development and sophistication of products.

Ireland’s trade/investment ties with the developing nations remain shallow and underdeveloped. Over the past decade, Ireland’s share of EU–15 exports to the developing nations has been halved. Ireland ranks among the least significant exporters to the developing nations relative to other European exporters.

A key question is, how Ireland will maintain its competitive edge and adjust to attracting more global investment and R&D to Ireland from the developing economies?

The ACCI identifies *Corporate Ireland needs to forge more inroads into the most dynamic parts of the world economy*, or it will progressively fail to thrive as a global economy as it does at present.

As demonstrated in the Irish-US relationship, companies on the ground are more important than trade when accelerating trade ties with developing economies. The US/Ireland experience of FDI indicates that direct investment in plant on the ground and operating enterprises in the reciprocal countries is a far quicker way of generating trade exchange than by trying to grow economic interaction remotely through import/export alone.

Ireland needs to deal with diplomatic relations with China and engage in accelerated FDI with China on a very substantial basis. A Government initiative has already commenced in relation to agri-business, foods and agriculture technology. This needs to be replicated on the manufactured goods and services side of the economy.
The visit of the next Chinese premier, Mr. Xi Jinping, to Ireland in February 2012 is a huge opportunity to showcase Ireland and to make strong connections. It is interesting that there is a wish in the visit to showcase Irish attractions on the west coast to Chinese tourists and to learn more of Irish agri-business and FDI experience in transforming Ireland from an agrarian society 50 years ago, to a modern technology society today.

In terms of global corporate strategies and global M&A, the developing nations are becoming more active. Multinational firms involved in global trade are forward looking and seek out Government and business partners with similar visions to accommodate their vision.

Ireland Plc. should be placed in the sights of many companies from the developing nations, who have the ambition to locate in a global premier division economy. Ireland is:

- An Export orientated open economy;
- A Bridgehead economy, already proven to be able to take another major economies companies into the EU market and also to establish major inroads into other economies through outward FDI;
- A Linked economy that has generated a large number of spin-off companies that serve foreign companies and engage in R&D and product development.

The key is to market Ireland as a place:

- With a very sophisticated R&D, production and product development establishment;
- That is flexible as a partner to R&D enterprises from the emerging economies, who wish to place their product directly into the western markets.

For Ireland, the rise of the developing economies represents a long-term competitive challenge in many industries the nation hopes to thrive in - alternative energy, green technologies, life sciences and high-end technologies. Ireland has some of the best natural resources in these areas – wind, wave, agriculture, nutrition advances etc. and
is willing to innovate in them. The rise of developing economies should be seen as an opportunity not a threat: -

- Ireland is currently at the forefront in developing cutting-edge technology, through its engagement with new-era technology companies in games, cloud and social networks;
- A high ratio of engagement in third level education is established in Ireland;
- Innovation has gone global and Ireland must strive to maintain an edge, by leveraging its current high-level involvement in R&D, by attracting product developers from developing economies.

Ireland should view the developing economies not as competitors but as potential partners, who can benefit from: -

- Ireland’s established outstanding position in the globalised economy;
- Its established bridgehead location within the two largest global consumer markets – US and EU;
- Its geographical location between east and west.

Ireland should seek to leverage its established reputation over 5 decades of involvement with FDI as an open and welcoming economy, to attract the attention of corporations from the developing nations, particularly those involved in R&D, new technologies and in developing alternative energies.

Ireland needs to establish fixed infrastructure to host the initial FDI engagement with China principally, with ASEAN economies and thereafter with other of the BRIC economies, on a very substantial basis.

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