



THE POLICY of attracting multinational corporations to Ireland goes back a long way, to the *Programme for Economic Expansion*, which was published in 1958. At that time, Ireland did not have a long tradition in manufacturing and it was felt that we needed to import the expertise and investment to catch up on our more developed neighbours.

Elements of this policy have changed over the intervening years. The rate of corporate profit tax was raised to 12.5 per cent, the emphasis shifted to services and to higher value-added jobs, but in essence the policy remained much the same.

The foreign direct investment (FDI) tended to come more and more from the US. Undoubtedly, the closeness of Irish-American ties contributed to this, as did Ireland's membership of the euro zone, with many American MNCs using Ireland as a platform for selling into the EU market. At present, Ireland has the largest inflow of FDI on a per capita basis of any country in the world.

It is a win-win situation. The Irish economy benefits greatly from US investment that embodies the latest technology. We are now host to some of the most prestigious companies in pharmaceuticals, medical devices, information, communication technology, and financial services. Signs for Intel, Google, Facebook, Boston Scientific, Merck and many other iconic names, can be seen all over the country.

Due to the low profit tax, other tax reliefs, tax treaties, grants, incentives, and a supply of skilled labour, the multinationals are happy. The Irish economy also benefits in that these companies contribute a significant proportion of GDP, job creation and exports – the latter representing about 70 per cent of total exports from Ireland each year.

FDI accounts directly for about 140,000 jobs in Ireland but the indirect effects probably push this number towards 350,000. A number of Irish entrepreneurs have learnt from these top US companies and have spun off their own businesses.

There are other intangible

Moving Ireland forward



US multinationals are a driving force in Ireland's economy so managing our shared future is crucial. Now is the time to build on our strengths and plan to win, writes Michael Casey

benefits too. US companies helped create the Celtic Tiger and thus promote Ireland's image abroad – and, indeed, the image of Northern Ireland. They also set this country on the road to becoming a Smart Economy.

It is interesting to note that, during the Celtic Tiger years of full employment, the question was

asked whether Ireland should opt for slower growth. What was the point in continuing to grow at 7 to 9 per cent a year, when every Irish person who wanted a job could get one? This was the time when Mary Harney travelled abroad recruiting foreign workers. Slowing the economy, however, would have meant putting the activities of the Industrial Development Authority (IDA) on hold. The trouble with that would have been that other countries would quickly fill the vacuum and the IDA would find it very hard to get back into the game when we needed to ramp up the growth rate again. Of course, foreign investment is a two-way street and FDI from Ireland into the US has also been considerable, with companies like CRH, Glanbia and the large banks leading the way.

According to some writers, the MNCs here have mitigated the present recession. Although ICT and financial services suffered

from the global recession, the pharmaceutical and medical sectors performed well, particularly in relation to output and exports. These are all benefits of having a well diversified output base.

So far this is a good news story but the question is: will everybody live happily ever after? The move by other countries to follow Ireland's example is another vote of confidence. Yet it is hard to deny a certain feeling of unease about the extent to which we rely on FDI.

It may be nothing more than a Puritan instinct, the sense that we have had growth too easy, by coasting on the investment, expertise and R&D of top American companies. Economists also tend to believe that growth should be a more organic process, coming mainly from the indigenous sectors, as is the case in Denmark and Finland.

There is a view that successful policies often sow the seeds of their own eventual failure. For example,

we became complacent during the boom years and allowed cost competitiveness to deteriorate. In a sense we paid ourselves for the productivity growth of the multinationals even though we had done little to bring it about.

This has resulted in job losses over the last couple of years. While

While competitiveness is improving, Ireland must move up the value chain and target skill-intensive jobs.

Photograph: Getty Images

competitiveness is improving now, it will not be possible to compete with the low-cost newly emerging economies.

Ireland, therefore, must move up the value chain and target skill-intensive jobs. Comments made by US president Barack Obama about not shipping American jobs over-

seas concentrated the Irish mind, as did the Lisbon Treaty debate about possible EU tax harmonisation. The latter point came to the fore again in the context of EU support measures for Greece. If the EU goes ahead with a more formal European Monetary Fund to rescue errant member countries, then it is very likely that there will be much more centralised vetting of the budgetary plans of individual countries. This could provide another opportunity for the EU to put tax harmonisation back on the agenda. While these concerns have not crystallised, they haven't quite gone away either.

Other questions are being asked. Has our dependence on multinationals crowded out indigenous entrepreneurship? Is our educational system all it might be? How serious is grade inflation? Will high value-added activities be labour-intensive enough? Can we really compete with low-cost countries like China and Brazil, which are rapidly developing skills? Is there a risk of fiscal retaliation?

Now that we are host to nearly all of the top US multinationals, does this not set some kind of natural limit to inward investment in the future?

Other uncertainties include the future of financial services after the recent meltdown and indeed the future of the capitalist system itself. It seems clear, from the statements of president Obama and other leaders, that the regulatory effort will be greatly strengthened in many different areas of economic life. This could inhibit the growth of FDI around the world.

On the other hand, offshore financial centres may do well because institutions will want to avoid domestic regulations. All we can really say is that the world is in transition mode. The IDA's Horizon 2020 Strategy could perhaps focus a little more on these uncertainties.

Our FDI policy has worked extremely well in the past and has served to mitigate the present recession. Nevertheless, important questions have to be asked about the future. To minimise risk, some form of contingency planning should be undertaken.

“The move by other countries to follow Ireland's example is another vote of confidence”

Setting our sights on a brighter horizon for the coming year

SUZANNE LYNCH

Following on from 2009 – a year of job losses and depleted investment – Ireland has turned a corner

IT WAS the news everyone had been dreading. In January 2009, Dell announced that it was moving its manufacturing activities at its plant in Limerick to Poland, with the loss of 1,900 jobs.

For the doomsayers, it was the beginning of the end. US international investment, upon which so much of Ireland's economic success had depended, was prepared to go elsewhere. Some 18 months on however, things are looking somewhat brighter.

Foreign direct investment (FDI) into Ireland remains remarkably robust. Today there are more than 600 US companies employing more than 100,000 people here.

Despite news from Pfizer this year that it is to restructure its manufacturing operations – with the loss of up to 785 jobs – Ireland has reason to be optimistic about the continuing commitment of the US to Ireland.

Last year, Ireland secured 125 FDI investments, of which two-thirds originated from the US. Of the close to 4,500 new jobs created, more than 2,600 originated from US firms. Even more reassuring is that, while US FDI in the rest of Europe and Russia fell by almost 40 per cent

in 2009, US investment in Ireland remained constant.

Ireland's ability to hold its own when it comes to attracting FDI from one of the world's biggest economic powers is not simply down to the two countries' deep historic and cultural ties.

Ireland presents a formidable offering to international companies looking to expand. The 12.5 per cent corporate tax rate, a highly skilled workforce, a pro-business culture and a position in the European single market continues to appeal to international companies looking to expand.

However, the economic situation of the past two years has highlighted some of the problems that face the country as it tries to sell itself as the location of choice for expanding businesses. The decision of Dell to relocate its manufacturing activities starkly brought to the surface the issues of competitiveness and the high cost of doing business here.

It was an issue raised by Ray Stata, founder and co-chairman of Analog Devices – which employs over 1,000 people in Limerick – in an interview with *The Irish Times* last year. Despite the announcement this week of a €23 million investment in R&D at its Limerick plant and the company's continuing commitment to Ireland, Stata warned of the difficulty of attracting new business here. “Companies like us are already here, but getting any new people to come here is going to be difficult. Ireland is much less attractive today than it was when we arrived. The Industrial Development Agency (IDA) has a tremendously difficult selling job.”

Addressing this issue of competitiveness is something

that the Government, the IDA and representative bodies such as the American Chamber of Commerce Ireland are well aware of. Regaining competitiveness is one of the six key areas in the Minister for Enterprise, Trade and Innovation Batt O'Keeffe's forthcoming plan of short and medium-term priorities. Similarly it is a major concern for the American Chamber of Commerce Ireland and a key agenda in its discussions with Government.

But while controlling costs is a policy issue for stakeholders, there is growing consensus that the key to Ireland's future success in terms of attracting FDI is to market itself not on cost, but on what it can offer in terms of high-end, innovative activity. The idea of Ireland as a hub of innovation, R&D, and high-end manufacturing and intellectual property opportunities has become the principle strand of Ireland's FDI strategy for the Government and the IDA alike.

To this end, the IDA is adopting a two-pronged approach – targeting new companies into Ireland by highlighting Ireland's status as one of the most innovative economies in the world and by trying to encourage those companies already here to transform and upskill their activity. So far the signs are good. Already this year, there has been a notable increase in the number of US companies investing in Ireland for the first time. These include games firm EA; pharmaceutical firm Warner Chilcott; internet security company Webroot; and social networking site LinkedIn.

Similarly, US firms with an established presence in Ireland have demonstrated a commitment to Ireland. As Barry

O'Leary, chief executive of the IDA points out, despite high-profile job losses, companies like Dell and Pfizer still have a significant presence in Ireland. “Dell, for example, still employs 2,300 people in Ireland. It is a significant amount,” he says while also adding that the job cuts that have taken place are as a result of companies downsizing rather than closing or pulling out of Ireland.

IN ADDITION to this, other companies have invested in R&D and innovation, thereby solidifying their presence in Ireland.

Analog's €23 million investment this week typifies the kind of upskilling the IDA is keen to encourage. Last year, HP announced an investment of €18 million in a global services desk at its Leixlip plant as well as investing in its cloud computing operations. McAfee has expanded its Cork operations with the establishment of an EMEA (Europe, Middle East and Africa) Inside Sales Operation, creating 120 new jobs, while Blizzard has expanded its European customer centre, creating over 700 jobs in the last two years.

A key factor in ensuring that Ireland successfully establishes itself as a hub of innovation is education. The need to improve maths education in particular, has emerged as a key talking point for stakeholders as they try to set about securing Ireland's future economic growth and prosperity.

Despite the challenges that remain for Ireland, the future looks promising. And as the world emerges from recession, it seems that Ireland may at last, be turning a corner.

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