



Foreign Direct Investment – the Irish experience

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Open investment friendly economy



- **1960s foundations of an open economy**
 - Anglo-Irish Free Trade Agreement 1965 - 1975
 - Encourage foreign investment, tax holiday for export sales
 - Free high quality second level education, vital for future !
- **1970s entry to European Community**
 - Increases attractiveness for Foreign Direct Investment (FDI)
 - But unsustainable public spending while reducing taxes
- **German FDI especially important in 1960s and 1970s, relatively lower labour costs in Ireland**

An economy in crisis - 1980s



- **Low Irish GDP growth rates, economy still lagging behind EC average, high unemployment, high emigration**
- Corporate tax rates introduced to replace “tax holidays”
- **Ireland develops FDI “clustering policy” around:**
 - computers, software, printers – IBM, Intel, Dell, Microsoft, HP
 - Pharmaceuticals- Abbott, Wyeth, Pfizers, ScheringPlough, Glaxo
 - International & Financial Services – AIG, Allianz, Rabobank, etc.
- **Ireland begins to tackle the fundamentals –**
 - A country cannot borrow its way out of trouble - commitment in 1986 to reduce debt-GDP ratio!
 - “We all must tighten our belts”
 - EU structural funds spent wisely, infrastructural deficit is addressed

Business Friendly Environment !



“opportunities to attract, retain and grow investment are best enhanced when countries provide a well functioning legal, political, social and economic environment in which companies can operate successfully and competitively”

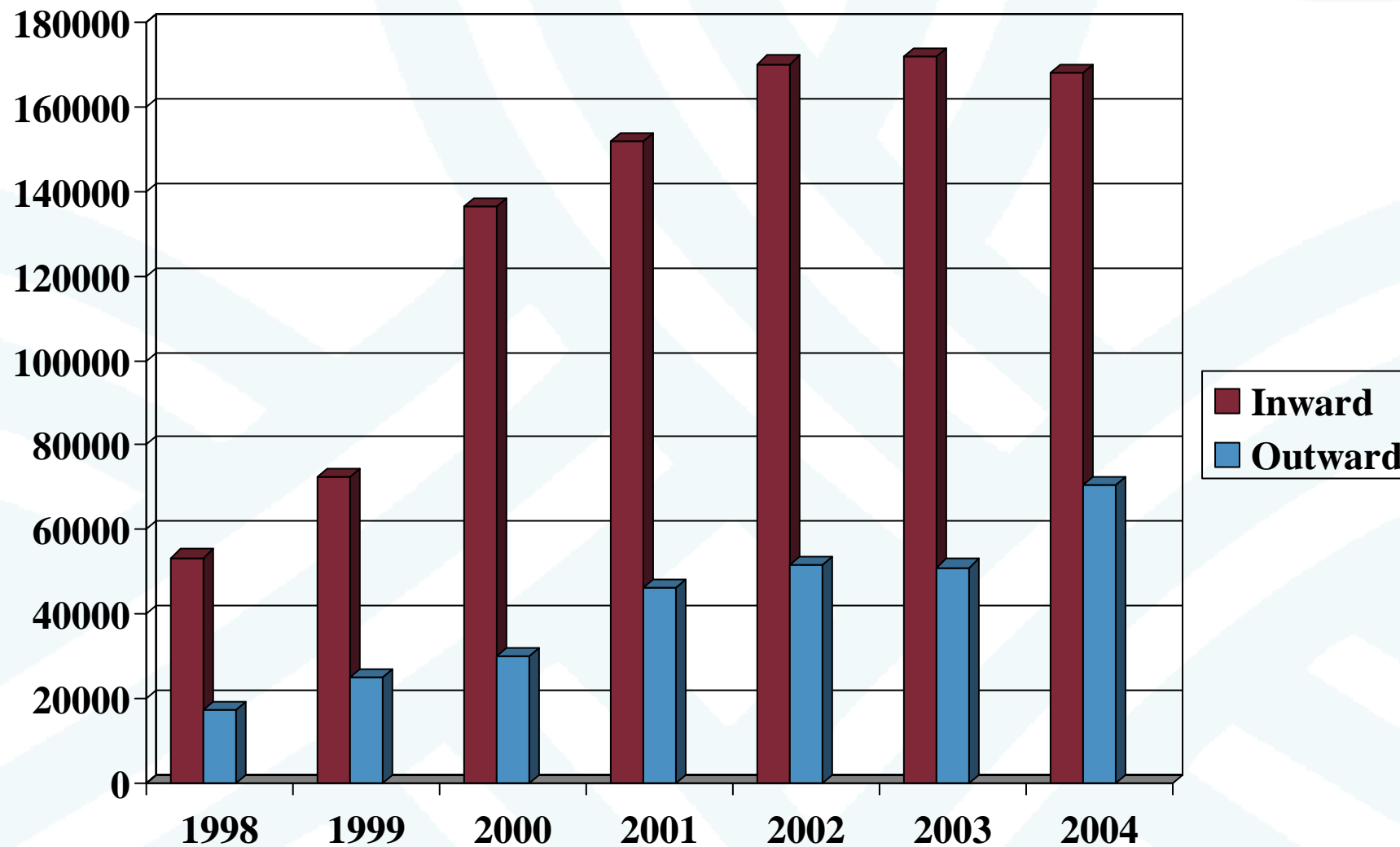
(Business and Industry Advisory Committee, OECD)

“Celtic Tiger” – 1990s boom



- **Social Partnership** – Govt, Employers and Trade Unions
 - Wage restraint, lower income tax, industrial peace & productivity.
- **Well educated & skilled population** – Third Level !
- **Creation of the “Single EU Market”**
- **Element of luck?** US companies looking to invest in Europe, Ireland had created the right business environment
- **Strong GDP & Employment growth,**
 - Irish GDP per person 134% of EU average in 2000
 - Immigration reflects employment opportunities
 - Irish share of US FDI rose from 2% to over 7%

Irish FDI Stock 1998 – 2004 (€ms)



MNCs in 2005, IDA Ireland figures



Country Origin	Companies	Employment
United States	473 (48%)	93,437
Germany	135 (14%)	10,965
United Kingdom	114 (11%)	7,074
Other	264 (27%)	19,336
Total	986 (100%)	130,812
<i>N.B.</i>	<i>33% of</i>	<i>Manufacturing</i>
		<i>Employment</i>

Ireland – attractive for R&D FDI



- **GDP growth of 5.5% (2005), strongest since 2000**
- **Capital investment in approved IDA projects - €5.8 billion for 2004 / 2005**
 - 23,448 new jobs, 50% paying salaries of over €37,000
 - 50 R&D & innovation type projects approved
 - MNCs investing €275 million in R&D in 2005
 - 16% IDA clients significant corporate R&D mandate
- **UNCTAD estimate that 70% of business related R&D expenditure in Ireland is by MNCs**

Lessons to be learnt from Ireland



- **Countries should never stop being pro-active** – e.g. today Ireland focused on FDI in R&D projects
- **Open non-discriminatory approach to investment**
- **Package of incentives is crucial**
 - Tax incentives are not enough on their own.
 - Business friendly environment – commitment of govt, employers and workers
 - Well educated and skilled labour force
 - Appropriate Government policies !
- **Building an economy by attracting FDI is a long game** – over 40 years and counting for Ireland